# Foreign Direct Investment and the Politics of Autocratic Survival

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by

Tobias Rommel

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Prof. Dr. Stefanie Walter (main supervisor)
Prof. Dr. Svend-Erik Skaaning
Prof. Dr. Marco Steenbergen

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## Abstract

In this dissertation, I argue and show that foreign direct investment (FDI) bolsters autocratic rule and hinders democratization. FDI helps to coopt the regime elite and intensifies the belief of the middle class in the legitimacy of autocratic rule through its distributional consequences. Because both societal groups see no reason to act against the incumbent regime on material grounds, FDI weakens pressures for regime change among the essential members of the autocratic support coalition. Consequently, I hypothesize that autocratic regimes are less likely to experience elite coups and popular uprisings and are, thus, more likely to maintain power. I substantiate this argument with a detailed empirical analysis. I demonstrate that dictators consciously choose the level and form of exposure to FDI in line with the preferences of their support coalition. I also show that the beneficiaries of FDI hold a much more favorable view of the incumbent regime and are less likely to instigate public protests than the adversely affected part of the population. Lastly, I find that FDI lowers the probability of autocratic regime breakdown. In essence, FDI has not only become the new pacemaker of economic globalization, but portrays sizable and lasting, but often unintended political consequences.

## Kurzzusammenfassung

In dieser Dissertation wird argumentiert und gezeigt, dass ausländische Direktinvestitionen (FDIs) die Überlebenschancen von autokratischen Regimen erhöhen und Demokratisierung erschweren. Da FDIs ökonomische Verteilungsgewinne zugunsten bestimmter sozialer Gruppen der autokratischen Unterstützerkoalition hervorrufen, entstehen finanzielle Möglichkeiten, die Regimeelite zu kooptieren. Gleichzeitig verstärken FDIs den Glauben der Mittelschicht an die Legitimität autokratischer Herrschaft. Da beide, für den Machterhalt essentielle, soziale Gruppen geringere materielle Anreize haben, gegen das amtierende Regime vorzugehen, schwächen FDIs Forderungen nach einem Regimewechsel. Autokratische Regime sehen sich daher weniger wahrscheinlich Putschversuchen durch Eliten und Aufständen durch die Mittelklasse ausgesetzt und können somit ihre Macht konsolidieren. Dieses Argument wird mit einer detaillierten empirischen Analyse untermauert. Diktatoren steuern die Art der Öffnung zu FDIs im Einklang mit den Präferenzen ihrer Unterstützerkoalition. Darüber hinaus zeigen weitere statistische Auswertungen, dass die Gewinner von FDIs autokratischer Herrschaft wohlwollender gegenüberstehen und weniger häufig gegen das Regime protestieren als die Verlierer aussenwirtschaftlicher Öffnung. Zuletzt wird gezeigt, dass FDIs die Wahrscheinlichkeit eines autokratischen Regimezusammenbruchs verringern. Ausländische Direktinvestitionen sind daher nicht nur zum neuen Treiber wirtschaftlicher Globalisierung geworden, sondern haben gleichzeitig weitreichende, wenn auch oft unbeabsichtigte, politische Konsequenzen.

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# Acknowledgments

Doing a PhD is a rewarding process – you learn a lot about the things you are studying as well as about yourself, you try to find answers to real-world problems, and at some point you succeed. At the same time, this process can be painful and stressful. It can be a very lonely trip, where you take wrong exits or lose your sense of direction. Luckily, this was not the case for me. Although there were hard times, mine was a joyride filled with lots of kind, helpful, and incredibly smart people. Each and everyone of you contributed to the success of this dissertation and I gladly use this opportunity to put all of you up front. Thank you!

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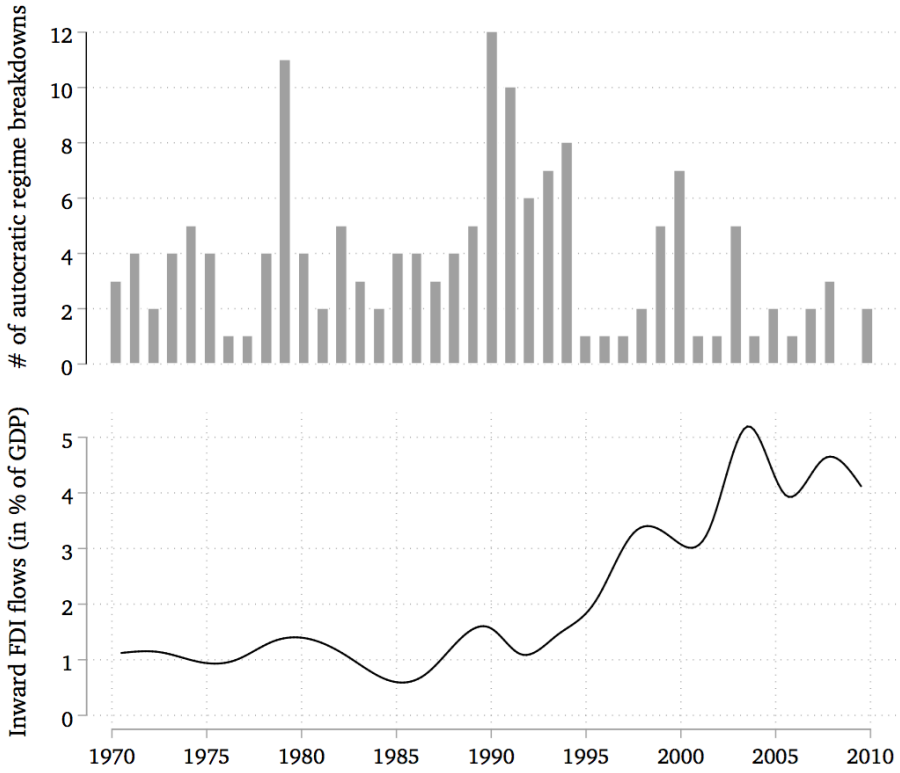
# Chapter 1

# Autocracies in the Global Economy

Since the end of World War II, openness to the global economy has risen to unprecedented levels. Over the last decades, more and more goods have been traded internationally (Milner and Kubota, 2005). The tremendous technological advances enabled firms to move production abroad and provide services from foreign countries (Blinder, 2009). Capital has become much more mobile and multinational corporations have invested in both long-term and short-term financial assets in other countries (Pandya, 2016). While democracies have partaken in the global economy early on, autocracies progressively jumped on the internationalization bandwagon (Jensen et al., 2012; Milner and Mukherjee, 2009). This dissertation investigates the political consequences of international economic openness in autocratic regimes.

In a nutshell, I argue theoretically and demonstrate empirically that economic globalization – more specifically, foreign direct investment (FDI) – bolsters autocratic rule. I focus deliberately on FDI, as it has become the new pacemaker of economic globalization (Pandya, 2016). In terms of actual capital flows, FDI not only surpasses portfolio investment and development aid, it is also a crucial driver of international trade integration (Milner, 2014). Indeed, the annual average inflows of FDI into autocracies roughly quadrupled in recent years (see Figure 1.1). Interestingly, this trend is accompanied by a reduction in the frequency of autocratic regime breakdown. I contend that these synchronous changes are not just coincidental, but that the two




Note: data from Geddes, Wright, and Frantz (2014) and UNCTAD (2015).

Figure 1.1: FDI Inflows and the Frequency of Autocratic Regime Breakdown

developments are related. To explain this relationship, my theoretical approach emphasizes two components: the societal structure of autocracies and the distributional consequences of international investment flows. FDI mostly benefits those parts of the population that are essential for autocratic power maintenance – the regime elite and the middle class. Because FDI unfolds both a legitimacy-enhancing and a cooptation-enabling dynamic, it increases these groups' support for the incumbent regime. In contrast, those parts of the population that stand to lose from international openness are unable to initiate regime change. Consequently, FDI aligns the interests of the most influential societal groups towards supporting the continuance of autocratic rule.

Because this argument proposes a new mechanism that links FDI with autocratic regime survival, the empirical analyses provide evidence on several observable implications. FDI should exhibit sizable distributional effects on

the individual-level. These material gains and losses should be linked with political demands and attitudes towards the legitimacy of the incumbent autocratic regime. Given that FDI shapes political demands, it should also affect the political process in autocratic regimes by inducing or prohibiting protests. And exposure of societal groups to FDI should have society-wide consequences in terms of actual policy-making as well as regime stability. To explore these relationships, this dissertation incorporates data on different levels of analysis to give answers to the following questions:

1. Why and how much do autocracies liberalize FDI?
2. How does openness to FDI affect individuals in autocracies materially and does it shape citizen support for autocratic rule?
3. Do FDI-induced demands and grievances translate into politics via popular protest?
4. How does FDI affect the survival of autocratic regimes and the prospects for democratization?

## 1.1 Existing Research: Economic Globalization and Democratization

This dissertation is not the first attempt to study autocratic regime trajectories under conditions of economic openness. A large research agenda investigates the determinants under which democratic rule emerges more generally (see, for an overview, Geddes, 1999; Haggard and Kaufman, 2016; Huntington, 1991; Mainwaring and Pérez-Liñán, 2014; Przeworski et al., 2000; Teorell, 2010). And although the pioneering work on this topic has focused heavily on domestic factors to explain why countries democratize, international factors have gained importance in recent years (O'Donnell and Schmitter, 1986; Pridham, 2000; Li and Reuveny, 2003). Whether and how economic globalization leads to democratization is, however, hotly debated.[1]

One group of scholars argues that economic globalization and democra-

[1] Here, I focus exclusively on research that deals with the connection between economic globalization and political regime trajectories. I will provide details on other facets of autocratic politics in the empirical chapters.

tization should go hand in hand (Acemoglu and Robinson, 2006; Boix, 2003; Milner and Kubota, 2005). Hence, these theoretical models hypothesize that economic globalization undermines autocratic rule and promotes democracy. To explain this connection, scholars have mainly stressed two mechanisms:

First, based on modernization theory (Lipset, 1959; Przeworski et al., 2000), scholars argue that economic globalization increases the wealth of nations by generating a well-educated and stable middle class (Eichengreen and Leblang, 2008; Li and Reuveny, 2003; Lopez-Cordova and Meissner, 2008; Teorell, 2010). The members of this class become economically independent from the state. Their improved economic situation implies more time to engage in activities not exclusively dedicated to individual survival. The middle class is, therefore, able to practice politics, which creates the participatory foundation for democracy. The diffusion of participatory ideals across borders reinforces these domestic processes. Ties between democracies and autocracies through trade and investment induce the diffusion of democratic values through economic channels (Bunce and Wolchik, 2010; Gleditsch and Ward, 2006; Levitsky and Way, 2010). The spread of democratic ideas amplifies the population's demand for democracy, which should ultimately result in the establishment of democratic forms of governance.

Second, redistributivist theories explain changes in political institutions with distributional conflicts over economic resources (Acemoglu and Robinson, 2006; Boix, 2003). The main assumption is that the masses always demand redistribution, because they are better off with a higher income (Meltzer and Richard, 1981). As the level of redistribution should be higher under democracy than under autocracy, the masses push for democratization. Yet, demand for redistribution on the part of the popular masses only leads to democratization if income inequality is low.[2] In this case, the redistributive impact of democratization decreases, lowering the ratio between benefits and costs of maintaining an autocratic regime for the elite. Assuming that all

[2] The arguments of Acemoglu and Robinson (2006) and Boix (2003) differ to some extent in this regard. While the latter argues for a linear relationship between inequality and the elite's willingness to induce democratization, the former see the biggest chances for democracy at middling levels of inequality. Given that most autocracies are unequal, the characterization above should nevertheless also hold in this reduced form (Ansell and Samuels, 2014).

autocracies are developing countries and the factor-proportions theorem of international trade is true (Heckscher, Flam, and Ohlin, 1991; Stolper and Samuelson, 1941), inequality decreases the more a country is open to economic globalization. It follows that economic globalization should lead to democracy (Acemoglu and Robinson, 2006; Boix, 2003).

Another group of scholars doubts that economic globalization induces democratization and argues in favor of an autocracy-stabilizing effect of international openness (Escribà-Folch, 2017; Im, 1996; O'Donnell, 1978; Özsahin, 2010). These theoretical models distinguish mainly between two mechanisms:

First, dependency theorists argue that resource flows from peripheral autocratic countries to core democratic countries benefit the latter at the expense of the former (Foweraker and Landman, 2004; O'Donnell, 1978). In order to maintain this profitable situation, democracies have no incentive to promote democratization in autocracies when these countries have strong ties through international trade and investment. Furthermore, by forming a coalition with multinational corporations, autocratic elites can reap the benefits of exploiting the disenfranchised masses (Im, 1996; Moran, 1978). As a consequence, economic globalization should not lead to democratization.[3]

Second, resource curse theories posit that non-tax revenues, stemming from oil and other natural resources, hinder democracy (Morrison, 2009; Ross, 2001). By generating rents, non-tax revenues enable the autocratic leader to buy off the regime elite, which decreases the chances of elite defections and, as a result, contributes to the stabilization of autocratic regimes. To the extent that trade and investment flows create fungible revenues, international openness opens new avenues to purchase political support (Escribà-Folch, 2017). Proceeding economic globalization should, thus, contribute to autocratic stability through its legitimacy-enhancing effect on the part of the regime elite (Arias, Hollyer, and Rosendorff, 2018; Bak and Moon, 2016).

Mirroring the theoretical dissent, the empirical evidence regarding the nexus between economic globalization and democratization is similarly ambiguous. Some studies find evidence in favor of the democracy-facilitating

[3] This mechanism is heavily debated in the literature and, if anything, finds only weak empirical support (Bollen, 1983; Escribà-Folch, 2017; Teorell, 2010).

effect of economic openness (Burkhard and de Soysa, 2003; Eichengreen and Leblang, 2008; Lopez-Cordova and Meissner, 2008). Other studies demonstrate that economic globalization in fact hinders democratization (Li and Reuveny, 2003, 2009; Özsahin, 2010; Rigobon and Rodrik, 2005; Teorell, 2010; Ulfelder, 2008; Yu, 2010). Further empirical investigations argue for and detect heterogeneous effects. For example, Rudra (2005*b*) finds a democracy-hindering effect if social expenditures are low and a democracy-facilitating effect if social expenditures are high. Epstein et al. (2006) not only look at democratization, but additionally analyze autocratic breakdowns. Their results suggest that economic globalization stabilizes democratic regimes, but has no effect on autocratic breakdown. To the contrary, Escribà-Folch (2017) finds that FDI decreases the probability of democratization, but again does not affect autocratic breakdown. Looking at financial globalization, Quinn (2002) finds that capital account liberalization leads to autocratic reversals. In a qualitative comparison of the Arab spring uprisings, Hinnebusch (2015) concludes that economic globalization not only bolstered previous autocratic regimes, but also created a class base unwilling to push for democratization even in the aftermath of initial regime breakdown. Further studies reveal inconclusive results with regard to both trade openness (Milner and Mukherjee, 2009; Papaioannou and Siourounis, 2008) and foreign direct investment (Li and Reuveny, 2003; Özsahin, 2010; Teorell, 2010).

The jury is, thus, still out on this debate. We have only little conclusive evidence about how economic interdependencies affect the type of political regime; least of all why FDI should affect regime breakdown (Escribà-Folch, 2017; Pandya, 2016). Even more, we lack knowledge about the specific mechanism that connects developments in the global economy with domestic institutional changes. Analyzing the impact of economic globalization on democratization, Teorell (2010, 116) thus diagnoses that this relationship is in fact much more complex than expected: “In sum, the impetus from abroad at first seems obvious. But on closer inspection its inner workings appear elusive.”

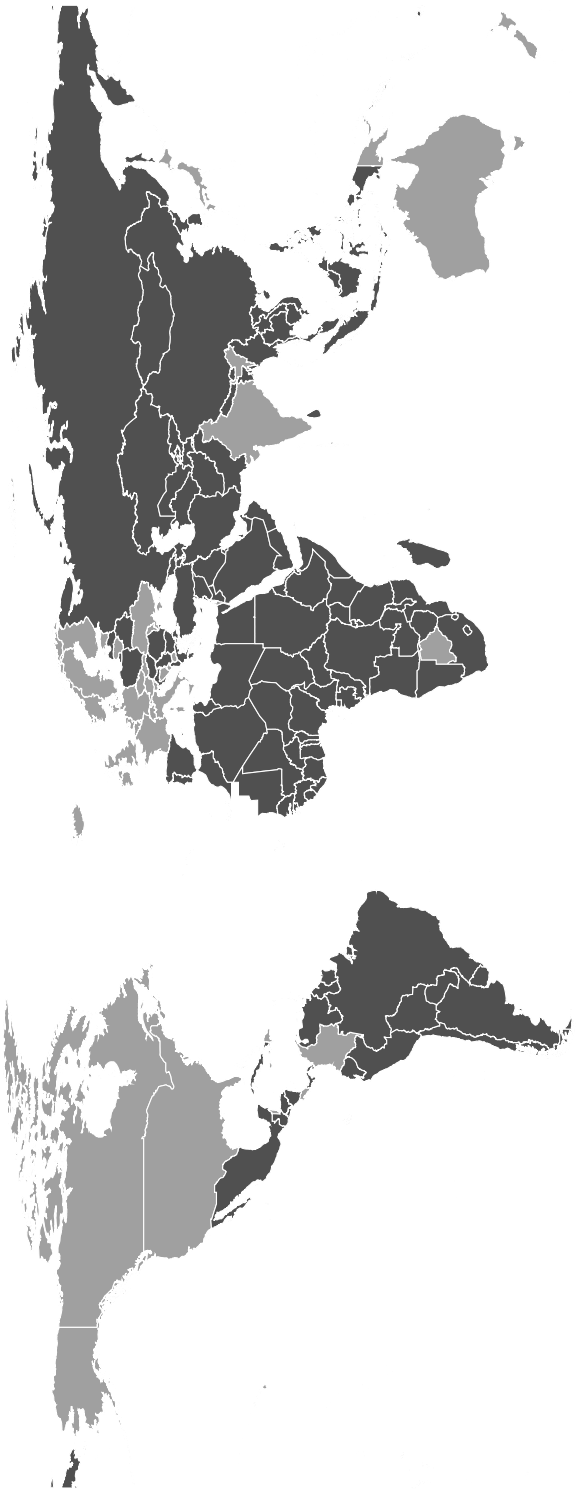
This is problematic for policy makers. After all, dominant foreign policy objectives portray the massive increase in economic globalization as a cure for the lack of voice on the part of the population in autocracies. For exam-

ple, former US President William J. Clinton stated: "Just as democracy helps make the world safe for commerce, commerce helps make the world safe for democracy" (Clinton, 1996, 36). His successor in office, George W. Bush, sang the same tune: "When we promote open trade, we promote both economic and political freedom. Societies that open to commerce will one day open to liberty" (Bush, 2001). Even more, he called upon his fellow citizens that protectionism prohibits the export of American values of democracy, thereby making the promotion of trade a "moral imperative" (New York Times, 2001). In what follows, this dissertation puts the connection between international economic openness and political regime trajectories under renewed scrutiny.

## 1.2 The Continuing Significance of Autocratic Regimes

In this dissertation, I depart from the literature's primary focus on democratization, and concentrate on the survival of autocratic regimes instead. Hence, I do not assume that democratization is equal to autocratic regime breakdown. Democratization is defined as the transition from an authoritarian spell to a democratic spell (Geddes, 2003). This process involves several steps (O'Donnell and Schmitter, 1986): autocratic breakdown, institutionalization of democracy as well as its consolidation.

Because there are several steps involved, there are differences concerning the impact of specific factors at each stage. "One major source of indeterminacy in the length and outcome of the transition lies in the fact that those factors which were necessary and sufficient for provoking the collapse or self-transformation of an authoritarian regime may be neither necessary nor sufficient to ensure the instauration of another regime – least of all, a political democracy" (O'Donnell and Schmitter, 1986, 65). It is, thus, reasonable to assume that the political process leading to autocratic breakdown is different from the political process leading to democratic institutionalization, which in turn may account for the inconclusiveness of existing research. By putting autocratic regimes at the center of attention, my approach reduces the risk to conflate these processes. Yet, what are autocratic regimes and why should we care about them?



Note: data from Boix, Miller, and Rosato (2013). Dark gray = country has been autocratic for at least one year between 1970 and 2010; light gray = country has always been democratic.

Figure 1.2: Countries under Autocratic Rule between 1970 and 2010

Between 1970 and 2010 autocratic rule has been an omnipresent feature of world politics. To identify autocratic rule, I rely on a negative definition of autocracy, i.e. regimes that do not fulfill a minimalist and procedural definition of democracy in terms of electoral participation and contestation (Coppedge, 2012; Dahl, 1971; Schumpeter, 1950).[4] Because both dimensions are necessary conditions for democracy, autocratic rule is present if either free and fair elections are not the only means by which political leaders are chosen or multi-party competition for political office is seriously hampered.[5] The uninterrupted period in which this is the case is defined as an authoritarian spell (Geddes, Wright, and Frantz, 2014).[6]

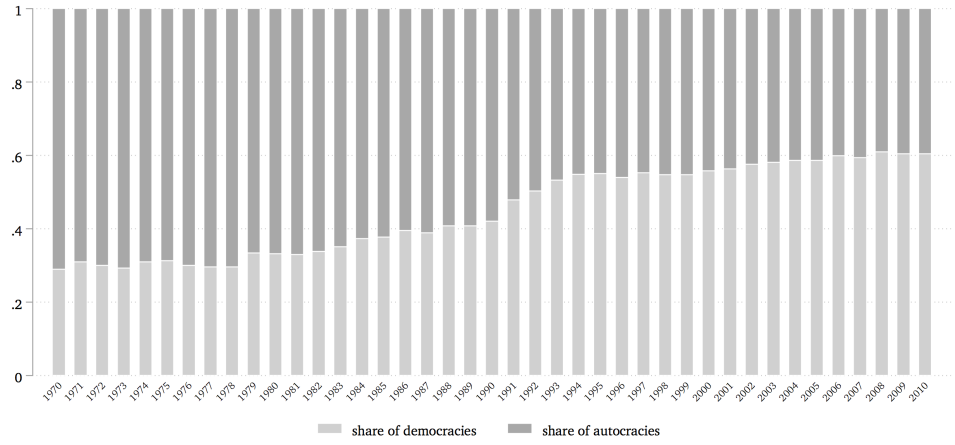
Given this sharp distinction between autocratic and democratic spells, only 60 countries have been consistently democratic between 1970 and 2010. The remaining 132 (out of 192) countries have experienced at least one authoritarian spell during this period. Figure 1.2 depicts the prevalence of the 'dark side of politics' around the globe. While Western Europe and Northern America were largely untroubled by dictatorial rule, the majority of countries in other regions were not. Almost all countries in Africa, Asia, and Latin America have been autocratic at least once between 1970 and 2010. This is the universe of cases, on which I build my argument and empirical analyses.

Nevertheless, democracies are on the rise. While a majority of about 70% of all countries were autocratic back in the 1970s, the 'third wave of democratization' (Huntington, 1991) turned the ratio upside down (see Figure

[4] Svolik (2012, 24) argues that "the difference between dictatorship and democracy is decidedly one of kind before it is one of degree." This stance is part of an ongoing debate in the literature on regime types. Consider for example research on 'autocracies with adjectives' (Linz, 2000, 34) such as hybrid regimes (Brownlee, 2009; Diamond, 2002), semi-authoritarianism (Ottaway, 2003), electoral authoritarianism (Schedler, 2006), competitive authoritarianism (Howard and Roessler, 2006; Levitsky and Way, 2010), and similar research on defective democracies (Merkel, 2004). I stick with this sharp distinction, because it is plausible to assume that democracies and autocracies fundamentally differ from each other with regard to the environment in which politics takes place. While the exertion of political violence and repression is impossible in democracies, it is a permanent threat in autocracies (Svolik, 2012).

[5] Consider from an empirical perspective Alvarez et al. (1996), Boix (2003), Boix, Miller, and Rosato (2013), Cheibub, Gandhi, and Vreeland (2010), and Przeworski et al. (2000). I explicitly do not take more encompassing definitions of democracy into account – for example, an all-embracing guarantee of civil or social rights (Schmitter and Karl, 1991; Zakaria, 1997).

[6] In addition, I do not take into account time periods, in which a country was under foreign intervention, warlordism, or a provisional government was in place.




Note: data from Boix, Miller, and Rosato (2013).

Figure 1.3: Share of Democracies and Autocracies between 1970 and 2010

1.3). Since 1990, nearly 60% of all countries are democratic. Yet, more than half of the global population, inhabiting about 40% of all countries, still lives under autocratic rule. Hence, autocratic rule is normality in many places. Countries even autocratized in the last years; for instance the Central African Republic in 2003, Peru in 1992, Russia in 1993, and Venezuela in 2005. And autocratic reversals in a couple of countries – including Hungary, Poland, and Turkey – may be just around the corner.

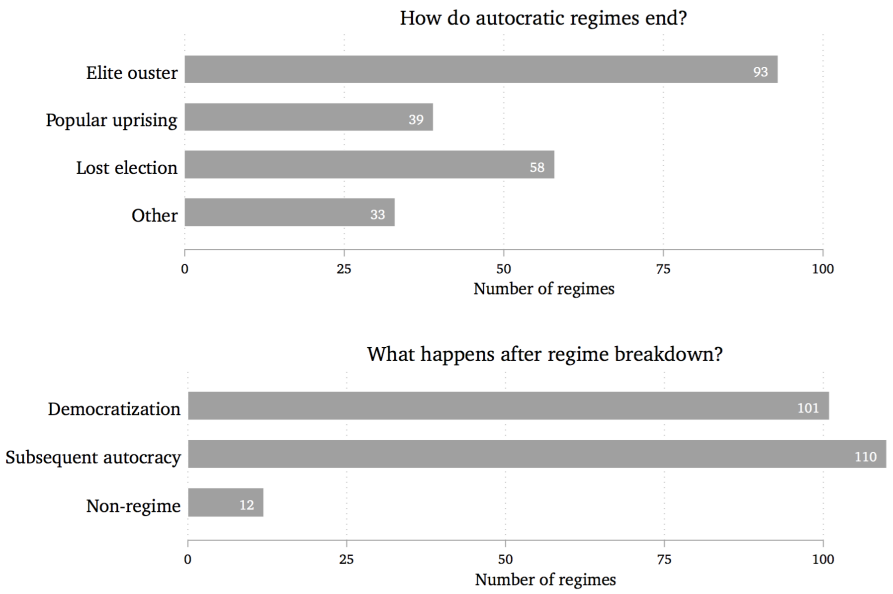
Importantly, this dissertation does not stop at the distinction between democratic and autocratic spells, as the resulting focus on democratization falls short of taking into account fine-grained differences in the way autocratic rule is actually executed. The focus on spells alone loses sight of the fact that dictatorships come in very different facets and show very different faces. One way to further disentangle spells is to focus on political regimes. A political regime is "a set of basic formal and informal rules for choosing leaders and policies" (Geddes, 1999, 116). Thus, autocratic breakdown does not imply democratization, but simply means that there is some form of institutional change. A look at the data substantiates this notion. There is tremendous variation in the number of autocratic regimes within authoritarian spells. About 50% of all authoritarian spells contain more than one autocratic regime and, therefore, have faced at least one regime breakdown (Geddes, Wright, and

Frantz, 2014). Focusing only on democratization neglects that there are in fact much more instances of political instability.

Consequently, the explanandum of this dissertation is autocratic regime survival, i.e. the time until an authoritarian regime falls apart. Geddes, Wright, and Frantz (2014, 314) identify autocratic breakdowns as instances "when basic rules about the identity of the leadership group change". Breakdowns are caused either by changes in the ruling coalition or by changes in the rules to attain power. Leadership turnover is not a sufficient condition for autocratic breakdown, however. While individual dictators have frequently come and gone, a considerable number of autocratic regimes have shown remarkable persistence. A prominent example in this regard is the rule of the Communist Party in Cuba. Fidel Castro left office in 2008, but power remained in the hand of the party, which replaced him with his brother Raul Castro; the leadership's identity did not change. In contrast, Fidel Castro's seizure of power after the Communist Revolution of 1959 is considered an autocratic regime breakdown. Castro ousted the military junta led by Fulgencio Batista and replaced it with a party-based regime (BTI, 2014).

In light of this conceptualization, new data reveals a total number of 223 autocratic regime breakdowns (Geddes, Wright, and Frantz, 2014). And despite the fact that breakdowns tend to cluster at some specific time points, regime breakdowns occur essentially every year. Investigating the mode of breakdown additionally reveals an interesting picture (see Figure 1.4). Contrary to popular belief, regime breakdown due to mass mobilization is rather uncommon and even less frequent than autocratic failure in the aftermath of lost elections. Instead, elite ousting is the most frequent way autocracies break down. Nonetheless, this implies that threats to the regime's hold on power emanate from the population as well as from within the regime itself. With regard to the latter, it is also not surprising that less than half of all regime transitions actually led to democracy. The majority of breakdowns results in a subsequent autocratic government, making autocratic regimes and regime breakdown an omnipresent property of world politics.[7]

[7] In the following, I use the terms 'autocracy', 'autocratic regime', and 'authoritarian regime' interchangeably.




Note: data from Geddes, Wright, and Frantz (2014).

Figure 1.4: Mode of Breakdown and Subsequent Regime Type

## 1.3 How FDI Impedes Autocratic Regime Breakdown

How does foreign direct investment affect autocratic regime survival and breakdown? In line with previous approaches, I propose a society-centered theoretical model of autocratic politics. Autocratic rule depends on support of societal groups (Bueno de Mesquita et al., 2003; Wintrobe, 1998). Groups that are crucial for autocratic power maintenance gain significant influence in autocratic decision-making. This is the case for the regime elite as well as the middle class, albeit autocracies differ according to the extent to which these groups are politically powerful. For incumbent regimes to survive, societal groups must continuously believe in the legitimacy of autocratic rule.

Foreign direct investment, in turn, alters beliefs in output-legitimacy through its distributional consequences. Some groups benefit in material terms, while others stand to lose (Baccini, Pinto, and Weymouth, 2017; Helpman, Itshoki, and Redding, 2010; Palmtag, Rommel, and Walter, 2018; Walter, 2017). Because FDI is an influential component of economic globalization in developing countries and exhibits stark distributional effects through is long-

standing nature (Pandya, 2016), it should directly and lastingly affect the political demands and interests of societal groups. I contend that FDI facilitates autocratic survival via two channels:

First, FDI enables cooptation on the part of the regime elite. With regard to the material consequences, attracting FDI may not pay off for the elite across the board (Aitken and Harrison, 1999; Haskel, Pereira, and Slaughter, 2007; Pandya, 2014*a*). While some members are able to reap the benefits of investment-induced growth opportunities, large business and land owners may also lose out through direct competition or marginalization. In addition, uncertainty about future gains increase in a completely open economy. As a consequence, members of the regime elite prefer partial and sector-specific liberalization of FDI. Fine-tuning economic openness not only ensures that elites profit directly, but also allows that overall gains from FDI are redistributed to them. By dampening both the motive-based reasons as well as the potential number of plotters, FDI makes elite coups against the regime less likely.

Second, FDI enhances the material well-being on the part of the middle class. The middle class comprises of skilled workers as well as owners of small businesses (Ansell and Samuels, 2014). FDI directly favors skilled workers by increasing wage levels and decreasing economic insecurity through more employment opportunities at multinational corporations (Feenstra and Hanson, 1997; Walter, 2017). Rising demands for goods due to increasing market income also spills over to small business owners (Görg and Seric, 2013). These material developments amplify the perceived performance of autocratic rule and, in turn, enhance the output-legitimacy of the incumbent autocratic regime. In addition, FDI not only leads to more favorable views of the incumbent regime, it also prohibits popular protest against autocratic rule (Palmtag, Rommel, and Walter, 2018). For individuals to participate in protests, they need motive (Gurr, 1970). As FDI dampens grievance-based motives among the middle class, protests become less likely. And even though a sizable portion of the population may stand to lose from FDI, they face collective action problems to organize political protests. In essence, FDI cuts off the poor masses' catalyst to act against the regime by rendering the middle class loyal.

This argument provides an alternative mechanism that helps to under-

stand why autocracies liberalize FDI as well as how autocracies fare in times of economic globalization. I explain both phenomena with a combination of the societal structure of autocratic regimes and the distributional consequences of FDI. The regime elite should prefer partial liberalization and pressures the dictator to safeguard some economic sectors. The middle class should prefer large-scale economic openness. Due to conflicting demands, the exact form of FDI liberalization is thus contingent on the societal make-up of the autocratic regime. Even more, FDI disincentives engagement in moves to overthrow the incumbent regime. It decreases the probability of both regime elite coups and middle class uprisings. As a consequence, foreign direct investment bolsters autocratic rule and simultaneously obstructs the prospects of democratization.

This theoretical mechanism sheds new light on the connection between economic globalization and institutional change in autocracies. Building on ground-breaking work on the individual-level consequences of economic globalization in democracies (Jensen, Quinn, and Weymouth, 2017; Walter, 2010, 2017), I apply insights from the literature on trade and multinational production to come up with a better understanding of the distributional impact of FDI in autocracies. Modernization theories have pioneered the study of democratization in that they argue that economic change leads to political change (Lipset, 1959). Nevertheless, simply arguing that economic globalization has positive effects for the society as a whole misses out on the fact that only some parts of the population benefit, while others stand to lose. Even though redistributivist arguments go a long way in reconciling this shortcoming by incorporating globalization's distributional effects (Acemoglu and Robinson, 2006; Boix, 2003), their characterization of the distributional effects of international openness rests on economic models that are outdated and do not conform with real-world dynamics (Goldberg and Pavcnik, 2007; McCaig and Pavcnik, 2015). The distributional consequences of FDI are more complex and can be explained with a combination of models of multinational production and newest advances in trade theory. Whether an individual or group of actors gains or loses out is contingent on both the level of productivity and the actual exposure to the global economy.

Given the distributional consequences of FDI, my theoretical mecha-

nism further departs from the assumption that increasing income brings about demands for democracy. This assumption is the centerpiece of both modernization and redistributivist arguments (Acemoglu and Robinson, 2006; Boix, 2003; Li and Reuveny, 2003). While I concur that increasing income may lead to a more favorable image of democratic governance, I question whether it simultaneously reinforces pressure for democracy at the same rate. For one, democratization involves costs and pushing for democracy implies sacrificing economic gains. Hence, there is a trade-off between current economic payoffs and democratic participation rights. While this trade-off might go either way, increasing income is also a sign of output-legitimacy of the autocratic regime (Bellin, 2002, 2010; Chen and Lu, 2011; Wintrobe, 1998). Given that the gains of political participation are uncertain and afar, I assert that increasing income contributes to political complacence, rather than instilling the need for political transformation. My theoretical argument, therefore, complements dependency and resource curse theories. FDI not only presents an opportunity for the dictator to keep the regime elite under control, but attracting FDI is a powerful tool to garner support from the middle class, as well.

Finally, I explicitly incorporate autocracies' decisions to open up their economies to international competition into the theoretical model. Both the modernization as well as the redistributivist approaches fall short of explaining why dictators open up the domestic economy in the first place, given that such a move would endanger their hold on power (Acemoglu and Robinson, 2006; Boix, 2003). The decision to open up to the global economy is essentially a domestic one. In this sense, economic globalization is hardly a simple structural factor that – as portrayed by both approaches – is imposed on autocratic regimes. Dictators consciously choose the level and form of FDI liberalization with regard to domestic power maintenance.

## 1.4 The Empirical Contribution of this Dissertation

To explore the impact of FDI on autocratic regime survival as well as shed light on the causal mechanism, this dissertation is organized in five main chapters. Chapter 2 discusses the theoretical argument in detail. The subsequent four

chapters present empirical evidence on different levels of analysis to substantiate the theoretical argument.

Chapter 3 investigates the domestic sources of foreign direct investment liberalization. Scholars agree that the type of authoritarian rule matters for economic outcomes. However, we do not know much about attractiveness of autocratic regimes for FDI. Instead of focusing on international investors, I approach this problem from the perspective of the domestic politics of FDI liberalization. In combining models on multinational production and new new trade theory, I argue that regime elites and the middle class have opposing demands with regard to FDI openness. Variation in FDI liberalization is thus due to the political power of the respective societal group. Entry restrictions for multinational corporations increase the more influential the regime elite is, but decrease in political influence of the middle class.

I then provide empirical evidence for the argument that societal groups affect FDI openness. I construct two indexes measuring the political power of both groups. Using panel regressions with country and time fixed effects, I test the hypotheses on a sample of up to 93 autocracies between 1970 and 2010. The results support my argument and suggest that demands of societal groups have high impact on decision-making in autocracies, especially when dictators are confronted with contested policy issues. Autocracies that depend more on the support of the middle class are comparatively more open to FDI than autocracies that depend heavily on the support of the regime elite. Here, openness is sector-specific and tailored towards complementing domestic business. The major insight of this chapter is that the political power of societal groups varies widely between autocratic regimes and that this form of autocratic diversity has direct consequences for policy-making. Given their position in the autocratic society, societal groups are able to get what they want. FDI openness, thus, serves as an essential tool to satisfy the material needs of the members of the autocratic support coalition.

Chapter 4 turns to the individual level and investigates how exposure to FDI affects citizen support for autocratic rule. Mass attitudes generally impact autocratic survival. Yet, we do not know much about how FDI alters citizen support for autocratic rule. I argue that low-skilled individuals face downward

pressure on their economic well-being the more they are exposed to foreign investment. Hence, they experience higher economic risks that make them more likely to oppose autocratic rule and support democratization. Essentially, they have a lot to gain from democratization, since this form of institutional change could open the door for redistribution. In contrast, highly skilled individuals' wage levels and job security increase when they work for multinational companies. This leads the beneficiaries of FDI to support authoritarian rule. They should value current economic gains more than prospective gains from democratic participation, especially because such gains are highly uncertain.

I present two empirical studies that corroborate these hypotheses. The first study utilizes survey data from 16 autocratic regimes in 2007, the second complements this analysis with longitudinal survey data from the Russian Federation between 2004 and 2013. I focus on a multitude of dependent variables. To show the direct economic consequences of FDI on the individual-level, I take survey items into account that capture individual economic grievances. To show that these grievances materialize in political demands, I concentrate on questions that capture evaluations of autocratic performance, perceived regime legitimacy, and preferences for democratization. I find that FDI heightens economic grievances for poorly skilled citizens, but amplifies economic security among well-educated members of the autocratic society. Even more, I show that these material consequences translate into political preferences. While highly aggrieved individuals call for democratization, the beneficiaries of FDI develop beliefs in the legitimacy of autocratic rule. The findings call into question the notion that economic globalization increases demand for democracy on the part of the population as a whole. Rather, the middle class supports the continuance of autocratic rule.

Chapter 5 explores political reactions to economic grievances induced by FDI. It pays specific attention to the question, in what way FDI affects the political process in autocracies via popular protest. This chapter relies on joint work with Tabea Palmtag and Stefanie Walter (Palmtag, Rommel, and Walter, 2018). We argue that exposure to globalization generates economic grievances that translate into protest only where poorly educated losers of FDI predominate. In contrast, FDI reduces the number of protests where

most workers benefit. Thus, the sub-national context is crucial to understand protest participation. These protests are confined to grassroots economic issues, however, and do not transcend into large-scale opposition protests. For one, losers concentrate primarily in remote areas where protesting against the regime loses its appeal. In addition, the costs of engaging in protests aimed at overthrowing the incumbent regime are extraordinarily high.

We examine this argument focusing on Russia, an autocratic emerging market economy with large regional variation in globalization exposure and protest. Using negative binomial regression models on data from 2007 to 2012, we find that regional education levels condition the effect of FDI on protest. FDI improves welfare in regions with a well-educated workforce, but deteriorates economic conditions in regions with lower education levels. Moreover, poorly educated individuals express economic grievances when they live in regions exposed to FDI, whereas exposure reduces grievances among well educated individuals. While FDI generally affects economic protest, it does not induce mass mobilization that threatens the incumbent regime.

Finally, Chapter 6 looks at the overall effect of FDI on autocratic survival. The previous findings indicate that the middle class benefits from foreign direct investment and thus supports autocratic rule on material grounds (see Chapter 4). While autocratic elites may not benefit from foreign investment across the board, they can effectively push the autocratic leader to fine-tune economic openness to their advantage (see Chapter 3). Although the poor are mostly adversely affected, they are not able to pose a credible threat on the regime (see Chapter 5). Thus, I expect that FDI increases the probability of regime survival. Beyond that, societal groups play a crucial role and condition the effect of FDI. The more an autocratic regime relies on either the regime elite or the middle class, the more does FDI liberalization embody the respective group's demands. The autocracy-preserving impact of FDI is thus even stronger the more powerful either societal group is.

To test these hypotheses, I employ Cox survival models on a sample of 182 autocratic regimes. My results suggest that foreign direct investment increases the duration of autocratic rule. Because access of the middle class and the regime elite to political decision-making varies, the impact of foreign

direct investment is further conditional on the power of societal groups in autocracies. The more powerful the regime elite, the lower is the probability of regime failure. FDI reinforces this effect. Interestingly, while strong middle classes are generally conducive to democratic change in closed autocracies, FDI reverses this effect. The more an autocracy is exposed to FDI, the more autocracy-preserving is the effect of middle class power.

In summary, this dissertation argues that FDI helps autocratic regimes survive. This hypothesis is at odds with prominent foreign policy objectives that advocate that globalization and democracy go hand in hand. At the same time, this argument both deviates and complements existing research on the connection between economic globalization and democratization. I provide evidence for the overall effect as well as the several steps of the causal mechanism. Due to this encompassing empirical approach, my dissertation contributes to our understanding of autocratic politics in times of economic globalization in a number of ways:

To begin with, I provide an in-depth analysis on the impact of FDI on autocratic survival. I specifically focus on authoritarian regimes, instead of the literature's previous focus on democratization. We learn that FDI increases the survival prospects of autocracies. This insight contrasts with modernization-type and redistributivist arguments that posit that proceeding economic globalization results in democratization, but complements dependency and resource curse theories that mainly focus on the regime elite in explaining the autocracy-stabilizing effect of international openness.

Relatedly, I propose a new theoretical mechanism that connects FDI and autocratic regime survival. Societal groups are the primary link to understand autocratic power maintenance, because FDI directly affects the material and political preferences of these groups of actors. We learn that societal groups are important to understand autocratic politics. The institutional turn in the study of autocracies did go along with a focus on how authoritarian institutions affect the interplay between the dictator and the elite (Pepinsky, 2014). Implicit in these models is that elites always possess great political power (Bueno de Mesquita et al., 2003). I argue and show that this need not be the case, but that in a non-neglectable number of autocracies, the middle class

forms a decisive group of actors.

Building on ground-breaking work on the impact of economic globalization on individual risk and attitudes (Walter, 2010, 2017), I extend the empirical scope of theories of international competition, most notably new new trade theory, to autocratic countries (see also, Palmtag, Rommel, and Walter, 2018). We learn that the distributional consequences of FDI not only affect material well-being and interests of citizens in autocracies, but transcend into concrete political demands and action. These results reinforce the notion that economic globalization plays a crucial role in autocratic countries' economic and political development. It does so, however, in more nuanced ways than previous approaches have assumed.

Lastly, this is the first study that comprehensively analyzes the impact of FDI on domestic politics in autocracies on multiple levels of analysis to trace the potency of the theoretical mechanism. To test various steps of the theoretical mechanism, I use data on the on the individual level, the regional level, and the country level. We learn that FDI shapes autocratic politics on all dimensions. On the individual level, it affects citizen support for autocratic rule. On the regional level, it determines political protest and social unrest. And on the country level, FDI contributes to autocratic power maintenance. Overall, this dissertation underscores the importance of foreign direct investment for autocratic regimes. Integration into the global economy has not only become a crucial part of autocracies' economic prosperity, but has decisive and lasting political ramifications.

# Chapter 2

# Theoretical Argument

In this chapter, I provide the theoretical foundation for the main hypothesis of this dissertation. I argue that FDI increases the likelihood of survival of autocratic regimes. Apart from that, the causal mechanism of the argument suggests several other observable implications, which I will spell out more clearly in the empirical chapters. As outlined in the introduction, we lack a coherent framework that is able to connect any form of economic globalization with political developments in autocratic regimes on multiple levels. I posit that societal groups are the primary link between FDI and autocratic power maintenance. Attracting FDI produces sizable and lasting distributional effects. Some societal groups benefit in material terms increasing their support for autocratic rule, others face serious pressure on their economic well-being. Even though the legitimacy of autocratic rule does not increase for all members of the regime, autocratic leaders are able to tailor and fine-tune economic openness in a way that reinforces support on the part of those groups that are essential for holding on to power.

The argument is organized as follows: In a first step, I present a society-centered model of autocratic politics that explains why some groups of actors – the regime elite and the middle class – possess relatively more, but varying political power to shape autocratic politics than the majority of the autocratic society – the masses. Next, I combine economic models on multinational production and newest advances in trade theory to arrive at theoretical

predictions regarding the distributional impact of FDI. These distributional consequences do not only manifest in material well-being and economic interests, but translate into political preferences. Lastly, I combine the two lines of reasoning and contend that the political power of societal groups conditions their ability to voice FDI-induced political preferences in autocratic regimes. The combination of the societal structure of autocratic regimes and the distributional consequences of FDI allows me to explain political developments in autocracies on several dimensions: why autocracies liberalize FDI (effect on policy), in what way FDI shapes political preferences and the expression of demands in popular protests (effect on politics), and how FDI ultimately affects autocratic regime stability (effect on polity).

## 2.1 A Society-Centered View on Autocratic Politics

Autocracies possess enormous power over their people. Autocratic rulers frequently deprive citizens of material gains, threaten individual livelihoods, or repress society with brute force (Arendt, 1951; Wintrobe, 1998; Robertson, 2010), but also distribute economic perks and political concessions (Bueno de Mesquita et al., 2003; Gandhi and Przeworski, 2007; Gandhi, 2008). In other words, autocratic regimes regulate everyday life with both small-scale and wide-ranging decisions that are binding for the population. Challenging autocracy – or at least the allocative impact of authoritarian decisions – needs more effort than merely voting for another party (and hoping to become the median voter). As orderly mechanisms for power transition usually do not exist, political violence is an ever-present option (Svolik, 2012). I argue that specific groups of actors nonetheless have critical leeway to shape autocratic politics. Dictatorial rule is hardly unopposed, but is significantly contested and influenced by societal groups.

### 2.1.1 Legitimacy and the Need for Support Coalitions

Why are societal groups able to influence political developments in autocracies? To approach this question, I start from the assumption that political leaders do not rule in vacuum. Their rule is contingent on continuous support

by essential members of society over which they rule (Wintrobe, 1998; Bueno de Mesquita et al., 2003). Ruling entails the de jure power to fulfill the most basic function of the state: exercise the monopoly on the use of force (Weber, 1919). Doing so, gives political leaders the ability to make decisions that apply to and affect society as a whole. Holding on to political power means being able to use force continuously (Olson, 1993). In that sense, politics is both conflict over the ability to make use of power as well as consensus on who actually is in power (Lipset, 1960).

The center of power, i.e. the state's entity that de facto makes binding decisions, is the political regime. In its most basic conception, a political regime is defined as "the rules that identify the group from which leaders can come and determine who influences leadership choice and policy" (Geddes, Wright, and Frantz, 2014, 314). The type of political regime thus regulates who can potentially be in charge of exercising the monopoly on the use of force. Although a political regime is entitled to use force, it is dependent on society's belief in its de facto legitimacy to do so. Legitimacy, defined as the general level of acceptance of the regime (Lipset, 1960), is thus an important condition for regime survival.[1] In democracies, legitimacy arises from the institutional design. Guaranteed rights to participate in free and fair elections that allow political contestation ensure that every member of society can potentially come to power and constrain the use of power on the part of the leader (Schumpeter, 1950; Dahl, 1971; Mainwaring and Pérez-Liñán, 2014).

The picture looks vastly different in autocracies. There are severe restrictions on who can in principle be a member of the regime's support coalition. Voting is either completely prohibited or essentially meaningless. Citizens thus do not possess quasi-automatic membership in support coalitions and do not represent a constant constraint on state action. Yet, autocratic rule is equally dependent on legitimacy (Lipset, 1960). In order to stay in power, autocratic regimes need the support of a critical mass of the autocratic society. In line with the concept of the winning coalition, developed by Bueno de Mesquita et al. (2003, 8), I define the support coalition as the "set of people

[1] Wintrobe (1998) and Bueno de Mesquita et al. (2003) make a similar argument, but usually refer to the concept of loyalty instead of legitimacy in this context.

who control enough instruments of power to keep the leader in office." If an autocracy's legitimacy among a sufficient number of the members of the support coalition declines, the chance for regime breakdown increases. A potential challenging regime might offer better conditions and attract enough followers to actually initiate regime change.

The autocratic regime's desire for holding on to power exhibits a flipside that generates influence of societal groups in autocratic decision-making. Although "the dictator may have a formal monopoly with regard to political power, the policies pursued on all matters is conditioned by constraints which arise both from the behavior of other actors [...] and from the extent of support or opposition from the dictator's subjects" (Wintrobe, 1998, 4). Dictators simply cannot rule against all members of society. Hence, societal groups' power to influence authoritarian decision-making arises from their membership in autocratic support coalitions. The precondition for potential membership in the support coalition is the group's ability to pose a credible threat to the power of the regime. Hence, only some parts of the population can possibly enter an authoritarian support coalition. As a consequence, the looming fear to lose legitimacy makes dictators susceptible to the material needs and political demands of some actors, but not others.

Although confronting autocracy is a high-risk strategy, actual challenges to the power of the autocratic regime do exist and have several domestic sources (Wintrobe, 1998; Bueno de Mesquita et al., 2003; Haggard and Kaufman, 2016).[2] Coups and uprisings feature most prominently in this regard. Coups are small-scale and targeted actions against a sitting dictator, usually initiated by competing forces within the regime elite (Powell and Thyne, 2011). Uprisings include larger parts of the population and need mass mobilization and strategic interaction among well-organized actors (Haggard and Kaufman, 2016). Both types of action on behalf of societal groups are, albeit to a different degree, feasible options to challenge the regime. And the occurrence of either one constitutes a failure on the part of the regime to properly

[2] Additionally, autocratic rule can also be challenged by international sources. Direct international sources for example include foreign military engagement (Berger et al., 2013). Indirect international sources include, inter alia, economic sanctions (Escribà-Folch and Wright, 2010) and foreign aid provision (Faye and Niehaus, 2012)

deal with the problems of authoritarian control, which concerns the conflict between the authoritarian leader and the population that is excluded from power, and authoritarian power-sharing, which centers around the interplay between a dictator and his or her regime elite (Svolik, 2012).

The focus on societal groups in autocracies is not new. Scholarly work in the social forces tradition has long been stressing the role of classes as decisive and powerful actors in autocratic politics (Clarke, 2017). For instance, Lipset (1959) puts the growing size of the middle class at the center of attention to explain the repudiation of autocratic rule. Moore (1966) argues that the bourgeoisie occupies a privileged position to initiate regime change. Rueschemeyer, Huber Stephens, and Stephens (1992) see high prospects for democratization when the working class is sizable. Bueno de Mesquita et al. (2003) generalize these thoughts into a common framework. Although they are somewhat agnostic about the specific idea of class composition, they explain decision-making in autocracies by means of the size of the winning coalition. Their argument rests on the notion that larger winning coalitions not only include the regime elite, which they assume to be a powerful actor in any case, but also larger parts of the middle class. As a consequence, autocratic leaders make policy decisions that are less concentrated on and less targeted to the regime elite if the winning coalition is large.

Although my argument is similar, it extends this notion on two important dimensions: On the one hand, I argue that the size of the societal group does not matter in itself to gain influence in autocratic politics. The sheer size of a group does not determine the effectiveness to transport political demands into politics. Group size may even be negatively related to the probability to overcome problems of collective action (Olson, 1965). Political power originates from associational resources, instead. Because attempts to overthrow an autocratic regime require decisive and concerted action and involve high costs, groups of actors need to be cohesive and collectively strong enough to pose a credible threat to the power of the regime and initiate actions to overthrow the incumbent regime. The ability of societal groups to threaten autocratic regimes thus hinges on the associational capacity, which involves the pooling of resources, facilitates that information cascades among members of the re-

spective group, and provides an insurance mechanism against one-sided and indiscriminate oppressive action (Haggard and Kaufman, 2016). Only associational resources help groups to overcome initial collective action problems as well as to sustain a constant threat over a long timespan.

On the other hand, I do not assume that the regime elite always possesses the highest relative political power in autocracies, which contrasts with the argument of Bueno de Mesquita et al. (2003). In fact, autocracies do break down due to popular uprisings, which suggests that some parts of the population are able to threaten autocratic rule, provided this group possesses associational resources. While I do not doubt that autocratic regimes need support from the regime elite, I explicitly allow for the possibility that leaders consciously seek support from other segments of society as well.

### 2.1.2 Autocratic Diversity and Political Power of Societal Groups

The argument so far delivers two crucial insights. First, in order to survive autocratic regimes have to accumulate legitimacy among their subjects. For this purpose, autocratic rulers build a support coalition. Inclusion into the support coalition makes sure that societal groups have a higher probability to get what they want, which increases the performance legitimacy. Second, associational resources determine whether societal groups are able to pose a credible threat to the power of the autocratic regime and are thus able to enter the support coalition. As support goes along with less decision-making autonomy, there are trade-offs involved. Furthermore, regimes are limited in the way they can manage societal groups, for instance by budgetary constraints (Wintrobe, 1998). Autocratic regimes, thus, do not seek support from all societal groups at once, but strategically build their support coalition in order to secure power. The bigger the threat to power of the regime elite, the higher the likelihood that elites have a crucial say in the support coalition and influence decision-making. Yet, some regimes might consider exchanging support from the elite for support from other societal groups, provided that the latter present a bigger danger to the regime.

This implies that autocratic regimes come in very different forms and shapes. Diversity arises from differences in the extent to which autocratic

regimes incorporate societal groups. I argue that autocratic regimes manage the composition of the support coalition by regulating the associational resources they allocate to societal groups. Several instruments affect the availability of associational resources and are able to reduce societal groups' ability to pose a credible threat to some extent. I assume that dictators behave rationally in the sense that they choose a stable support coalition that they believe exhibits the highest probability to stay in power (Bueno de Mesquita et al., 2003; Geddes, Wright, and Frantz, 2014). This characterization has two important qualifications: First, assuming rationality is not equal to assuming perfect information. Dictators make miscalculations due to information deficits (Wintrobe, 1998). After all, deceit on the part of the regime elite or misrepresentation of support on the part of the population might be effective ways to get what these groups want (Svolik, 2012). Second, the assumption of rational behavior does not rule out that dictators might have other goals, for example personal gains. However, I contend that such goals are subordinate, because the realization of other goals is tied to occupying the dictatorial office.

In the following, I distinguish between the three most important groups in autocracies (Ansell and Samuels, 2014): the regime elite, the middle class, and the disenfranchised masses. Although this categorization comprises of very large groups, these are actors that feature prominently in the literature on autocratic politics and democratization (e.g., Acemoglu and Robinson, 2006; Boix, 2003; Haggard and Kaufman, 2016; Lipset, 1959; Rueschemeyer, Huber Stephens, and Stephens, 1992). Moreover, attempts to challenge the regime via coups and uprisings can be particularly attributed to the regime elite and the middle class. Although the masses are a large group in terms of size, they mostly lack associational resources (Olson, 1965; Haggard and Kaufman, 2016; Pearlman, 2016). Without interference on the part of the autocratic regime, regime elites and the middle class threaten autocratic rule more. This implies that only regime elites and the members of the middle class have the potential to become part of the support coalition.

Autocratic regimes differ with regard to the support they seek from either one of these groups. To manage the support coalition, autocratic regimes are able to make use of several tools that affect the amount of associational

resources of societal groups. These instruments can be grouped into two categories: repression and organizational capacity.

The strategy most commonly referred to when it comes to autocracies is repression. Repression instills fear and diminishes the incentives to engage in collective action (Davenport, 1995; Carey, 2006). Nevertheless, large-scale repression may backfire. For instance, repression works well for a targeted set of the population. Yet, once repression levels get too high, uncertainty about the targets of repressive action increases to a point where even the represser might fear to become the repressed (Wintrobe, 1998). This means that relying exclusively on large-scale and wide-spread repression is probably an inferior strategy to manage the composition of the support coalition.

Apart from repression, there are tools to manage organizational capacities, with which regimes regulate the associational resources of societal groups. Such instruments directly affect the ways a societal group can leverage its power resources. Organizational capacities amplify the chances that demands transcend into politics by amplifying turnout, facilitating horizontal coordination, and forming collective identities (Haggard and Kaufman, 2016). Yet, by granting organizational capacities, the autocratic regime strips itself of a good deal of autonomy, because it amplifies self-imposed political constraints to decision-making. As both strategies – repression and organizational capacities – have diminishing marginal returns, it is impossible to neglect the regime elite as well as the middle class entirely. It is thus likely that both groups have influence in autocratic decision-making to some extent. In the following, I detail for each societal group, which baseline power the respective group possesses as well as which specific instruments the autocratic regime has at its disposal to manage the political power of the respective group.

**The Regime Elite** Who belongs to the regime elite? Although autocratic regime leaders formally occupy the highest office in autocracies, they do not govern alone. Dictators are surrounded by an inner circle of people that help govern the country. Inter alia, this in-group comprises of party officials, military officers, state bureaucrats, or revolution comrades. Or in other words, a set of political actors who make authoritarian rule possible in the first place and, consequently, facilitate the desire of dictators to stay in office (Svolik,

2012). Apart from colluding with political elites, dictators build coalitions with other high-ranking segments of society. Economic elites are important because of their wealth and their control over the means of production. Whereas some dictators focus more on land-owning elites (Albertus, 2015), others build on the support of industrialists and owners of other large businesses (Wood, 2001). Even though economic elites may not belong to the innermost governing circle, they nevertheless contribute to the regime by means of financing. Taken together, members of the regime elite are thus actors that, from the start, occupy a privileged position in the autocratic society.

Dictators frequently include politically and economically important figures in their support coalitions. Elites become insiders to the regime, which entails privileged access and agenda-setting power (Brownlee, 2007). Yet, the important precondition is that the members of the regime elite get institutionalized access to the dictator. For instance, authoritarian parties are built to incorporate and coopt regime insiders (Magaloni, 2006; Gehlbach and Keefer, 2011). They serve the purpose of channeling common interests, which adds authority to the elite's claims. At the same time, aggregating interests is an insurance device against indiscriminate repression. If elites' had to bring their claims forward individually, it would be easier for the regime to single out individual offenders. Establishing regime parties thus binds regime elites into the support coalition, yet simultaneously gives them political power. Because they can transport their demands better, the chances of getting their preferred policies increases. Dominant parties, and therefore a highly capable and institutionalized regime elite, push the dictator towards focusing on narrow interests that specifically cater towards their material needs.

Nevertheless, dependency on elites' support involves trade-offs on the part of the autocratic leadership. The more influence dictators allow, the higher are their constraints in terms of decision-making. On the flip-side, refusing elites the opportunity to exert influence may result in elite defection, which leads to the destabilization of the regime. Limiting elite power goes along with depriving institutionalized access by weakening the power of the regime party. Given this trade-off, dictators consciously decide the level of influence of the regime elite. Essentially, they calculate how much influence

elites need to continuously support the incumbent regime, conditional on the dictator's willingness to resort to support from other parts of society. As a consequence, political power of the regime elite should vary widely between autocratic regimes.

Taken together, regime elites come from a strata of the autocratic society that already occupies a privileged position in the sense that they have enough financial and political assets at their disposal to pose a credible threat to the power of the leader. Nevertheless, autocratic regimes can still regulate the amount of access and political power of the regime elite by granting or denying associational resources. The most important instrument in this regard are regime parties. This argument does not imply that regime elites have their political power handed on a silver platter. After all, regime parties are absent in a considerable number of autocratic regimes. I contend that this is due to the fact that the elite is not the only decisive societal group in autocratic regimes. In order to implement the most effective power maintenance strategy, autocratic regimes might also empower the middle class at the expense of the regime elite.

**The Middle Class** Who belongs to the middle class? Previous accounts conceive of members of the middle class as the bourgeoisie (Moore, 1966), the working class (Rueschemeyer, Huber Stephens, and Stephens, 1992), urban citizens (Huntington, 1991), well-educated citizens (Welzel, 2013), or people with above-average income (Bellin, 2010). Although these definitions disagree substantially, they have the notion in common that the members of the middle class similarly occupy a somewhat privileged position in society. Economically, the middle class belongs to the upper strata of the population and usually has a rather steady income, which is higher than the income of the median society member (Ansell and Samuels, 2014). Members of the middle class are above the level of subsistence and can – in a Weberian sense – afford a higher level of consumption. Small business owners (Greenwood, 2008) and workers living in urban areas (Bellin, 2002) are the most important parts of this group of actors. Although they do not possess direct access to the autocratic leadership, the members of the middle class are essential in the sense that they contribute to the economic development of autocracies by applying

their productive assets and skills.

Beyond economic resources, the middle class owns political assets with regard to overcoming problems of collective action. Broadly speaking, members of the middle class can afford political action (Lipset, 1959), because they do not live from hand to mouth. The middle class has relatively low costs to organize political action, since its members do not live in geographically remote areas. Finally, their social environment is usually large enough to allow for political discourse and deliberation. Because members of the middle class do not directly occupy the inner circle of autocratic regimes, they are oftentimes assumed to have little political influence. This assumption disregards the fact that these citizens have specific demands. Neglecting specific demands disproportionately increases the risk of popular uprisings. As such, the members of the middle class have the necessary economic, political, and cognitive resources to initiate actions to overthrow an autocratic regime.

The chance of leveraging these resources hinges on associational resources, however, which can be influenced and managed by the autocratic regime. The two most important instruments are organizational capacities and repression. In order to pose a credible threat, members of the middle class need organizational capacities to overcome collective action problems and organize (Rosenfeld, 2017). "The many acquire power primarily through organization" (Rueschemeyer, Huber Stephens, and Stephens, 1992, 66). Organizational capacities arise mainly from the ability to form and organize in civil society organizations (Bernhard et al., 2017). Civil society organization help to build a united front, especially in terms of transporting political demands, and facilitate deliberation. Granting organizational resources thus increases the middle class' ability to participate in autocratic politics.

Nevertheless, a dictator can choose to hold middle class influence at a minimum. Curbing civil society organizations strips the middle class of its essential political resources. Furthermore, repression oftentimes serves as an instrument to curtail influence. Because the middle class is nevertheless a rather numerous group, compared to the regime elite, repression takes on more subtle means. For instance, economic repression through employment in state-owned enterprises or denying the right to own property weakens the

economic resources members of the middle class can bring to the table (Ansell and Samuels, 2014). Yet, suppressing political opposition entails diminishing marginal returns, while disproportionately undermining legitimacy (Wintrobe, 1998). The middle class is thus never completely out of power.

In summary, the middle class consists of members of the autocratic society that, in principal, have the necessary resources to influence autocratic politics. Yet, the middle class does not occupy the inner circle of autocratic rule. Without any interference from the autocratic regime, it is thus likely that the influence of the middle class is comparatively weaker than the influence of the regime elite. Nonetheless, an autocratic regime possesses instruments to deliberately strengthen or weaken middle class influence, depending on the relative threat they pose to autocratic rule in comparison to the regime elite.

**The Disenfranchised Masses** Although the masses are the largest group in autocracies, their influence is most limited. The disenfranchised masses predominantly include rural peasants, tenant farmers, and unskilled workers (Ansell and Samuels, 2014). Although some economic sectors may be dependent on their (wo)manpower, the members of this societal group are easily replaceable, as they typically possess non-specific production factors. Additionally, they lack the necessary associational resources to organize and pose a credible threat to the power of the autocratic regime (Olson, 1965). They stay behind with regard to economic resources and income. They live from hand to mouth, which means that their primary concern is to secure living.

Apart from this, the masses lack political resources as well (Collier, 1999). Although they may be highly aggrieved, they are geographically dispersed, which complicates the formation of common interests that can be voiced. Some scholars even doubt that the disenfranchised masses are able to formulate consistent demands, for example regarding redistribution (Ansell and Samuels, 2014; Slater, 2010). And even if they have the ability to protest, the masses do so mostly on economic grounds to better their dire situation, which usually does not cascade into large-scale political uprisings. Whereas the masses have a critical say in democracies, because they have the right to vote, I argue that their role is negligible for autocratic power maintenance. As such, the disenfranchised members of the autocratic society do not be-

come members of the support coalition and do not gain influence in autocratic decision-making.

In summary, dictatorial rule is backed up by a support coalition that lends legitimacy to the autocratic regime. Dictators choose the level of support from both the regime elite and the middle class. These groups are important, because they can pose a credible threat to the power of the dictator. In turn, this makes the dictator susceptible to their demands, thereby increasing the decision-making power of the respective group.

## 2.2 Distributional Consequences of Foreign Direct Investment

Up to this point, we know that the middle class and the regime elite are the decisive societal actors, whose preferences and demands the autocratic regime has to take into account in order to survive. In the following part, I argue that FDI influences the economic situation of both groups. Countries are able to realize aggregate welfare gains by opening up to international investment (De Mello, 1997; Borensztein, De Gregorio, and Lee, 1998; Hansen and Rand, 2006). But an aggregate perspective does not take stock of the distributional effects of FDI. FDI not only shapes economic development in the aggregate, but affects individuals differently. While scholars generally agree that economic openness creates both risks and opportunities within the economy (Feenstra and Hanson, 1997; Helpman, Melitz, and Yeaple, 2004; Walter, 2010, 2017), the distinct form of the distributional effects on wages and employment are contested.

A large research program has engaged in identifying these distributive effects of economic globalization on individuals (for an overview, see Kuo and Naoi, 2015). Economic models that pinpoint winners and losers of international openness have largely focused either on differences in the relative productivity between sectors or industries – i.e., sectoral trade models (Frieden and Rogowski, 1996; Ricardo, 1817) – or on differences in the relative endowment with different production factors – i.e., factoral trade models (Heckscher, Flam, and Ohlin, 1991; Stolper and Samuelson, 1941). Following the latter,

either capital or labor receives increasing returns in an open economy, depending on its comparative advantage. Since most autocracies are developing countries, labor is the abundant production factor in these economies. Because the comparative advantage of autocracies is in labor-intensive goods, this production factor receives higher earnings. Hence, international economic openness creates increasing income for production workers and decreases income inequality (Ahlquist and Wibbels, 2012; Li and Reuveny, 2003).[3]

Yet, in empirical terms, the inequality-decreasing effect does not materialize; if anything, inequality rises (Goldberg and Pavcnik, 2007). Furthermore, both trade models do not incorporate intra-industry trade, which has become even more prominent in recent years (Helpman, 2014). Because these models fail to explain empirical regularities that paint a more complex picture of globalization's effects, a new generation of models – the so-called 'new new trade theory' – has emerged that is better able to explain the heterogeneous effects of globalization (Helpman, Melitz, and Yeaple, 2004; Melitz, 2003). These models suggest that international openness increases inequality among individuals exposed to international competition, whereas there is much less divergence among those working in parts of the economy that are sheltered from international competition (Helpman, Itshoki, and Redding, 2010; Palmtag, Rommel, and Walter, 2018; Walter, 2010, 2017).

These models are mostly tailored towards the distributional effects of international trade, however. FDI exhibits even stronger effects, as it affects national economies in two ways (Helpman, 2014): First, it directly and immediately reallocates economic resources between domestic firms and foreign multinationals (effect on competition) as well as between domestic firms (effect on the supply chain). Second and partly a consequence of this, foreign investment raises the share of firms in the tradables sector that are competitive in world markets. Hence, in addition to its resource-reallocating impact on local business, foreign investment also affects large parts of the citizens. In the following, I combine the insights from trade theory and research on the impact of multinational corporations on intra-industry reallocations to arrive at theoretical predictions on who wins and who loses from FDI.

[3] This line of reasoning is central in Acemoglu and Robinson (2006) and Boix (2003).

### 2.2.1 FDI and Domestic Business

Multinational corporations enter foreign markets to increase their return on capital and, as a consequence, their profits. In order to do so, they make use of location advantages in host countries that either increase their overall market share or give them access to specific resources (Dunning, 1993, 2001; Jensen, 2006). Business in autocracies is oftentimes not competitive in world markets; and low competitiveness leads to a major reallocation of domestic market shares if highly productive foreign companies enter the domestic economy. Hence, domestic firms that have to compete directly with foreign firms face stark adverse effects on their revenues and, in turn, may need to lay off workers (Pandya, 2014*a*; Aitken and Harrison, 1999).

On the other hand, domestic firms benefit from foreign direct investment in three ways: First, they may enter the supply chain of multinational corporations. If the overall supply of capital increases due to FDI, so does demand for production inputs. This widens the market share of domestic firms' products resulting in higher profits (Pepinsky, 2009). Second, because foreign investors provide capital that is oftentimes scarce in autocracies, they form the basis for new firms to emerge by creating alternative funding opportunities for businesses. Third, foreign investors incentivize (Haskel, Pereira, and Slaughter, 2007; Javorcik, 2004) or force (Godart and Görg, 2013) technology and knowledge spillovers. Those spillovers in turn increase the productivity of domestic firms, especially if they are able to act as suppliers to foreign companies (Görg and Seric, 2013; Moran, 2014).

Table 2.1 summarizes the direct effects of FDI. There are both winners and losers. Domestic firms that compete directly with foreign investors are on average worse off than other firms. Yet, this effect is weakened if domestic firms are able to enter the supply chain of multinational corporations, notwithstanding elevated competition. Firms benefit most from foreign investment if they do not face direct competition and simultaneously act as suppliers. In this situation, revenues increase most. Yet, even those firms that cannot increase their market share benefit from the presence of multinational corporations due to technological spillovers that amplify their overall productivity level.

Table 2.1: Distributional Consequences of FDI for Domestic Business

| | | *Supply Chain* | |
|---|---|---|---|
| | | No | Yes |
| *Competition* | High | – – | – |
| | Low | + | + + |

+ = higher revenues; – = lower revenues.

### 2.2.2 FDI and Domestic Workers

As a consequence, foreign direct investment also affects a large share of the working-age population. Given the fact that only a fraction of firms in each industry actually engages in export, new-new trade theory specifically focuses on firm-level heterogeneity in productivity to assess the effects of economic openness. Melitz (2003) argues that trade openness partitions domestic firms into three types: First, the most productive firms export. Due to their high productivity, they are able to compete with other firms for market shares in foreign economies. Both foreign multinationals and domestic firms that act as suppliers belong into this category. Second, although firms with a median productivity level are not able to compete internationally, they still have the capacity to serve the domestic market. Yet, because the size of the domestic market is fixed, they cannot reap the benefits of exporting. Third, competition for firms with a nonproductive labor force is highest forcing them to shut down their business. Such firm-level sorting happens both in case of large-scale trade liberalization and in case of gradual trade expansion.

Helpman, Itshoki, and Redding (2010) apply the logic of the Melitz (2003) model to come up with individual-level predictions about the impact of trade. They assume that the initial productivity level of firms is the sum of the individual productivity levels of the workforce. Given that firms partition under trade, they have incentives to strengthen their market position. They do so by means of screening to improve the composition of their workforce according to their needs. Because individual productivity is not directly observable, screening to overcome search frictions is a costly process that enhances the bargaining position of workers. Consequently, firms in the tradables sector not only seek highly productive workers, but also pay higher wages resulting

in intra-industry wage inequality (see also, Walter, 2010).

In summary, multinational corporations systematically demand workers with higher productivity levels compared to domestic firms that face direct competition or do not have the opportunity to act as suppliers. They do so because they rely on the production of goods that require a skill-intensive labor force. This results in even higher wages for high-skilled individuals working in exposed sectors (Feenstra and Hanson, 1997). Additionally, even local firms producing in sectors exposed to foreign investment increase the wages of their workers in order to either compete with foreign companies (Lipsey, 2004) or to be able to serve as their suppliers (Görg and Seric, 2013). New new trade theory thus suggests that well-educated individuals who are exposed to the global economy benefit most from globalization (Baccini, Pinto, and Weymouth, 2017; Walter, 2017). These individuals are more likely to work in the most productive firms that benefit from global exchange. As the international competitiveness of these firms depends on the high-quality work provided by their well-educated workforce, economic openness increases the demand for such workers by exporting and multinational firms. This bolsters these workers' bargaining power, which results in higher wages and lower employment risks (Bernard et al., 2007; Osgood, 2016; Wagner, 2007). FDI thus benefits well-educated workers most, but in contrast to factoral models, this only applies to well-educated workers exposed to globalization and not those working in industries that are sheltered from global competition.

Conversely, poorly educated workers who face international competition lose out. Reallocation of resources in the domestic economy forces some firms to only serve the domestic market or even to shut down their business entirely. Because those workers have lower average productivity-levels they face downward pressure on their wages and higher job insecurity relative to workers in exposed sectors. They lack the skills to be employed by internationally competitive firms. In turn, they are more likely to work for firms that cannot compete with the more productive, internationally active firms or multinational corporations, and their jobs pay lower wages. Additionally, their risk of unemployment is higher, as their employers are more likely to be driven out of business, and their chances for reemployment are lower in an

open economy, in which they are not able to meet the recruitment prerequisites of thriving firms. Importantly, these labor market risks are much higher than those of workers with equally low education levels working in industries with low levels of FDI. Less educated workers exposed to international competition are therefore the main losers of FDI and the group of individuals with the largest grievances with respect to globalization.

These insights suggest that the effect of foreign investment on individual market income and perceived economic security is conditional on both exposure to foreign investment and individual skill-levels, as is shown in Table 2.2.[4] On average, workers with high productivity levels earn higher wages than nonproductive workers. Exposure to foreign investment further increases the wedge between workers. Highly productive workers earn even higher wages when working for multinational corporations. Contrarily, less productive workers in exposed firms face the highest probability of getting laid-off.[5]

Table 2.2: Distributional Consequences of FDI for Domestic Workers

| | | *FDI Exposure* | |
|---|---|---|---|
| | | Low | High |
| *Skill-Level* | Low | − | − − |
| | High | + | + + |

+ = higher income; − = lower income.

Taken together, exposure to foreign direct investment induces both economic risks and opportunities and, thus, shapes perceived feelings of economic insecurity. High-skilled individuals should be less likely to show feelings of job insecurity due to wage developments compared to low-skilled individuals. The gap between both should further increase, the more these individuals are exposed to foreign direct investment.

[4] This contrasts with the predictions of factoral Heckscher-Ohlin and Stolper-Samuelson models of trade, which suggest that the effect of trade is uniform for all individuals within a certain skill-group or factor of production.

[5] In line with these predictions, empirical evidence suggests that the distribution of economic gains is indeed dependent on individual productivity levels. High-skilled individuals earn higher wages and have more job opportunities regardless of the country's level of economic development (Pflüger et al., 2013; Rudra, 2005*a*). And contrary to factoral or sectoral trade models, wage inequality in developing countries increases rather than decreases under trade (Goldberg and Pavcnik, 2007; McCaig and Pavcnik, 2015).

## 2.3 Societal Group Power and FDI Openness

In a next step, I argue that the combination of the societal structure of autocratic rule and the FDI-related economic interests of societal groups jointly determine the form and degree of FDI openness. Societal groups directly impact autocratic decision-making. FDI openness comprises two distinct levels. The first level concerns the domestic regulatory regime to liberalize or restrict access of multinational corporations. The second level concerns the attractiveness of a country for international investors and thus relates to the willingness of multinational corporations to supply FDI.

### 2.3.1 FDI Restrictions

I define FDI restrictiveness as the regulatory quality of policies that either prevent multinational corporations (MNCs) from entering domestic markets or weaken MNCs' control over firm-specific assets (Pandya, 2014*b*). The range of domestic political restrictions to foreign investment includes complete bans on foreign investment, the prohibition of FDI in specific sectors or industries, joint ownership rules, national content requirements, or informal screening barriers. As such, the level of FDI restrictiveness is a proxy for the effort of autocratic governments to fine-tune economic openness in a globalized world.

I contend that autocratic governments are able and willing to fine-tune economic opening and, therefore, choose the level of restrictiveness strategically. The potential distributional effects of FDI suggest a sharp divide between the preferences of the regime elite and the middle class. The regime elite owns large parts of domestic business. As such, the members of this group do not benefit from FDI across the board. While some business owners win if they are able to supply multinational corporations with production inputs, industrialists that face direct competition with foreign investors are likely to lose revenues. The regime elite thus prefers a restrictive policy framework to regulate entry of FDI. They favor the partial abolishment of entry restriction for specific sectors and a regulatory environment that weakens the autonomy of multinational corporations in those sectors where they themselves own assets. Nevertheless, elites do not want to ban international investors entirely.

The middle class on the other hand mostly benefits from FDI. On average, middle class workers are better educated and possess skills that are sought after by MNCs and, thus, earn higher wages than the comparatively poorly educated masses. Exposure to foreign investment further increases their market income. Highly productive workers earn even higher wages when working for multinational corporations.[6] Given that international investors provide additional jobs, a larger portion of the middle class is able to work in productive firms, which not only increases wage levels, but reduces job insecurity at the same time. The middle class thus supports large-scale and far-reaching foreign direct investment liberalization and a loose regulatory regime.

I argue that these demands expand into politics. Societal groups not only shape autocratic decision-making, but dictators enact policies that cater towards the needs of their support coalition. Because the preferences of societal groups are constant across autocracies, the differences in the degree of FDI restrictiveness can be traced back to differences in their relative political power. Autocratic governments, in turn, are able and willing to fine-tune economic opening and, therefore, choose the level of FDI restrictiveness strategically in accordance with the interests of the societal group that is most likely to pose a credible threat on their power. The more powerful the middle class, the fewer entry restrictions. Conversely, the more powerful the regime elite, the more entry restrictions.

### 2.3.2 FDI Attractiveness

As opposed to the domestic regulatory regime, I define FDI attractiveness as the acquisition of physical capital by a foreign individual or legal entity in the domestic economy via acquisitions or joint ventures, i.e. FDI inflows (Jensen, 2006; UNCTAD, 2009). I exclude the acquisition of physical capital by domestic legal entities in foreign countries, i.e. FDI outflows, since they most likely capture exit restrictions instead of a country's attractiveness for foreign direct investment.

[6] In line with this argument, Pandya (2010) finds that highly skilled individuals demand more foreign investment than low-skilled individuals.

Obviously, FDI restrictiveness and attractiveness are correlated. As a matter of fact, entry restrictions should decrease FDI stocks (Pandya, 2014*b*). However, assuming that every autocratic regime has a specific baseline demand for foreign capital, because the level of private investment is usually lower than in democracies (Stasavage, 2002), and dictatorial leaders have to find alternative sources of investment,[7] high restrictions are not a sufficient condition for little foreign investment. Empirically, there is variation both in terms of FDI restrictiveness and attractiveness across autocracies and time. Some autocratic regimes have high restrictions, but at the same time high FDI inflows, whereas others do not regulate foreign investment, but still are not very attractive for multinational corporations.

Differences in the regulatory environment of foreign direct investment thus only partly explain a country's attractiveness for FDI. Importantly, the decision to invest remains in the hands of multinational corporations. Because MNCs want to increase their return on investment, governments' only means to attract FDI is to incentivize via location advantages (Dunning, 1993). Whereas such advantages oftentimes stem from abundance in specific production factors that cannot be altered by political decisions – such as natural resources – tax incentives and political guarantees relating to expropriation are subject to politics (Li, 2006; Li and Resnick, 2003).

Because location advantages for MNCs are subject to politics, the power of societal groups also affects FDI inflows. Governments reneging on investment deals due to time inconsistencies are the primary problem of international investors (Büthe and Milner, 2008). Investors thus seek insurance for their physical capital. Politically powerful societal groups, which favor foreign direct investment, work as a credible commitment device of the dictator to signal policy stability to potential investors (Bastiaens, 2016; Chandra and Rudra, 2015). Reneging on investment deals on the part of the dictator violates the demands of the middle class. A powerful middle class thus functions as a brake pad on possible policies that negatively affect international investors.

The same argument holds in case of the regime elite. Although pow-

[7] This assumption is correct in empirical terms, because almost all autocracies have liberalized foreign investment regulations in the past decades. Even very closed regimes, such as Cuba, liberalized foreign investment laws in recent years (Feinberg, 2013; BTI, 2014).

erful elites prefer fine-tuning FDI openness, which decreases the number of fully liberalized economic sectors, investment in those sectors that are in fact liberalized complements domestic investment. Stable investment is advantageous, as it increases revenues that can be used to buy off parts of the regime elite. Consequently, investment in uncompetitive sectors is in the interest of the regime elite. Even more than that, societal accord between the regime elite and middle class should further facilitate a stable investment regime for multinational investors. Hence, the political power of either societal group increases actual FDI inflows. Yet, this effect is substantially weaker if the regime elite is relatively more powerful than the middle class, because higher entry restrictions allow FDI only in a selected number of sectors.

## 2.4 FDI and Citizen Support for Autocratic Rule

Given that autocratic regimes liberalize FDI strategically, I argue in a next step that exposure to FDI translates into regime support – or the lack thereof, respectively. Hence, I assume that economic self-interest is a major driver of policy preferences, for instance regarding attitudes towards liberalization or compensatory policies (see, e.g., Meltzer and Richard, 1981; Iversen and Soskice, 2001; Moene and Wallerstein, 2001).[8] In democracies, research has shown that globalization-induced policy preferences have direct consequences in the form political demands and vote choice. Individuals who are negatively affected by FDI, perceive their labor market situation as more precarious (Scheve and Slaughter, 2004; Walter, 2010). In turn, they prefer protectionist and/or compensatory policies that shelter them from these pressures and improve their material welfare. In contrast, globalization winners are much less interested in such policies (Hays, Ehrlich, and Peinhardt, 2005; Mayda and Rodrik, 2005; Scheve and Slaughter, 2004; Walter, 2017).

In autocracies, the individual-level effects of foreign direct investment similarly affect the way in which citizens assess the incumbent regime. There is, however, considerable disagreement as to how FDI shapes regime support.

[8] Although this notion is to some extent disputed when analyzing rich democracies (see, for example, Hainmueller and Hiscox, 2006; Mansfield and Mutz, 2009), I stick with this assumption, since material self-interest should be decisive in less developed countries.

The modernization view contends that FDI leads to increasing income, which strengthens demands for democracy, for instance by enhancing education levels (Lipset, 1959; Sanborn and Thyne, 2014) or by reinforcing self-expression or emancipatory values (Inglehart and Welzel, 2005; Welzel, 2007). In the following, I argue against this view and contend that FDI increases economic performance, which amplifies citizen's belief in the legitimacy of current rule and induces preferences for political stability (Bellin, 2010; Chen and Lu, 2011; Treisman, 2011; Wintrobe, 1998). I distinguish between three dimensions of individual support for the incumbent regime: satisfaction with the government, perceived legitimacy of the functionality of political institutions, and support for autocratic rule as opposed to democratization.

### 2.4.1 Regime Satisfaction

Individuals that benefit from foreign direct investment support continuing or even deepening economic openness, including the abolishment of foreign entry restrictions or trade barriers. Consequently, highly skilled individuals are most prone to demand even more far-reaching liberalization policies, especially if they work in exposed jobs (Pandya, 2010). Foreign direct investment should also affect preferences for redistribution. Unskilled labor is most at risk of losing market income. As redistribution and social security expenditures usually raise individuals' disposable income, low-skilled exposed citizens should welcome redistribution as a measure that compensates for the risks adversely affected citizens bear.

If individual demands are met by government policies, people's satisfaction with the economic performance of the government or leader increases on material grounds. Conversely, if an authoritarian leader fails to provide economic welfare, citizens become increasingly dissatisfied. Applying a simple Meltzer and Richard (1981) logic suggests that especially low-skilled exposed citizens should be highly dissatisfied. They lose out from international competition and, thus, develop demands for protection. Due to the lack of free and fair elections, autocratic governments are on average not responsive to these demands and, as a consequence, not willing to provide universal and large-scale compensation. The high-skilled exposed are, on the other hand,

much more satisfied. They can reap the benefits of openness without having to carry the tax burden that comes along with redistribution (Ross, 2001).

### 2.4.2 Legitimacy and Regime Preferences

Government satisfaction should further manifest itself in perceptions of legitimacy. If the economic performance of the government is congruent with individual preferences, citizens develop beliefs in the legitimacy of the regime in place (Almond and Verba, 1963; Eckstein, 1966; Welzel and Inglehart, 2009). This is not confined to economic considerations alone, but is relevant for political institutions in general. As such, economic satisfaction also translates into institutional support. If losers from foreign direct investment, however, start to dis-belief that authoritarian rule is legitimate, because they suffer economically, they put the blame on the functionality of political institutions. Broadly speaking, they hold the lack of political participation and curtailed civil liberties responsible for their dire situation. As such, low-skilled exposed individuals most likely show high discrepancies between the perception of how political institutions should work and the assessment how political institutions de facto operate.

Apart from government satisfaction and institutional support, foreign investment also affects people's support for autocratic rule. Under the assumption that actors have real and feasible preferences about political regime types (Mainwaring and Pérez-Liñán, 2014), individuals compare the current political situation to all possible alternative regimes, including democracy. Low-skilled individuals fare worse under autocratic rule. They lose out in material terms. Given that they directly blame the government for their adverse situation and they lose faith in the performance of autocratic rule, they demand democratization. Under this alternative regime type, the masses would be the decisive actor and had the opportunity to push for redistribution (Meltzer and Richard, 1981). Exactly because low-skilled individuals lose out and demand redistribution, they prefer democratization, even at the expense of short-term political and economic turmoil (Acemoglu and Robinson, 2006; Boix, 2003).

As for the well-educated winners of FDI, it is certainly possible that these individuals generally have a more favorable view of democracy as they

receive a higher market income. Nevertheless, I doubt that a favorable image simultaneously amplifies their demand for democracy at the same rate. For one, regime change includes direct costs to overthrow the current regime. Pushing for democracy thus implies immediate costs to act against the regime as well as sacrificing current economic gains. Furthermore, there is large uncertainty whether economic gains are equally large under alternative regimes. After all, democracy might not be the regime type with the highest revenues for the beneficiaries of FDI. Ansell and Samuels (2014) show that the middle class in autocracies is already better off than the median citizen and would lose revenues due to higher tax rates if they supported democratization. On purely material grounds, the winners from foreign direct investment should thus support autocratic stability and sacrifice the chance to obtain participation rights, especially with regard to democratization.

Summing up, the distributional consequences of FDI help to understand how citizens assess autocratic rule. My argument predicts that foreign investment increases satisfaction with the incumbent regime for high-skilled individuals. In contrast, foreign investment intensifies calls for redistribution on the part of the poorly educated. Based on these political demands, foreign direct investment shapes citizen support for autocratic rule. The beneficiaries of FDI value stability over participation rights and thus support the incumbent regime. In contrast, the adversely affected part of the population demand democratization as a means to better themselves economically.

## 2.5 FDI and Public Protest

Given that foreign direct investment affects political preferences, the next step of the argument relates to the question if and how individuals express these preferences in the political process. Due to the lack of democratic institutions, such as free and fair elections, the transmission of individual demands into the political sphere is more constrained in autocratic regimes. The expression of grievances thus takes on other forms. To voice their demands and make their grievances visible, individuals need to engage in protest.

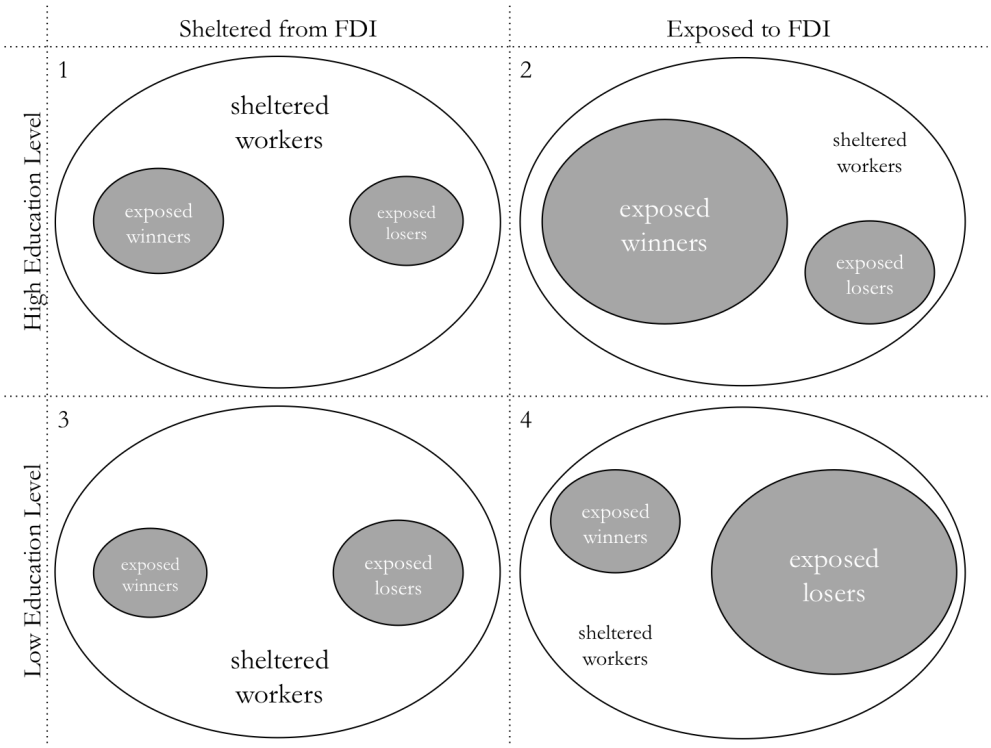
### 2.5.1 Public Protest

To understand how FDI affects protest behavior,[9] I again take stock of its distributional effects. FDI creates winners and losers within societies, who either benefit from exposure to the international economy or are harmed and face increasing economic insecurity. The beneficiaries of FDI should feel no reason to protest on material grounds. They are better off with increasing FDI and belong to the middle class, which facilitates that their preferences for openness are indeed heard by the autocratic regime. However, a large group of the population is actually worse off. For this group, economic grievances pile up.

Yet, grievances do not translate in protest behavior automatically. These individual-level effects only translate into wider societal effects when they accumulate. The effect of FDI on protest behavior is thus context-dependent on the sub-national level (Palmtag, Rommel, and Walter, 2018). Conditional on the prevalence of highly and poorly educated individuals in regions and the average exposure to FDI, some regions benefit more from multinational investors than others. In regions with a high share of FDI winners, for example, average wages are likely to be higher and unemployment is likely to be lower, leading to greater prosperity. In contrast, regions in which exposure to FDI is high, but consist of a rather poorly educated workforce, are likely to see lower average wages, more unemployment, and less prosperity. Thus, the effects of FDI on the regional economy depend on the interaction between exposure and the average level of education in the regional workforce.

Figure 2.1 illustrates these regional distributional effects. It shows four different scenarios, based on whether a region is sheltered from or exposed to FDI and whether its workforce comprises a relatively high or low share of well educated people. Within these regions the ratio of winners, losers, and those sheltered from FDI varies considerably. Regions 1 and 3 are relatively sheltered from FDI. Only few people in these regions are exposed to global competition, which means that the share of both FDI winners and losers is relatively small, even though the regions differ in how educated their workforce is. As a result, those regions' economic welfare mainly depends on factors

[9] This part of the argument is based on joint work with and has benefited greatly from the intellectual contributions of Tabea Palmtag and Stefanie Walter.




Note: graph is taken from Palmtag, Rommel, and Walter (2018).

Figure 2.1: Regional Impact of Foreign Direct Investment

other than FDI. In contrast, regions 2 and 4 are more exposed to FDI. In region 2, well educated workers dominate, which results in a sizable group of FDI beneficiaries, relative to a much smaller group of FDI losers. As a result, the region's overall economy is likely to benefit from FDI openness, showcasing higher average wages and lower unemployment. Region 4, in contrast, is a region in which a large share of the population is poorly educated. Here, FDI exhibits more negative than positive effects. People that are adversely affected make up a large share of the population, whereas only a small fraction of inhabitants is able to reap the benefits. As a result, FDI is likely to have a negative effect on the regional economy, depressing wages and increasing job loss. This generates widespread economic grievances in these regions.

How are these regional consequences of FDI related to social unrest and protests? Again, I start from the assumption that people care about their material situation and form individual policy preferences accordingly (Lake, 2009). This suggests that individuals' education levels and exposure to globalization

should influence the types of policies they prefer. In democratic contexts, such individual policy preferences are brought into politics through elections. Yet, these channels are not effective in translating policy demands into actual policy outputs in autocracies.

Grievances can only be effectively voiced in elections if parties and candidates compete and promise to alleviate these economic grievances. However, citizens' ability to choose from a large menu of options is curtailed. Even if autocratic regimes allow elections, they prove ineffective because they only take place relatively seldom. Several years can pass between the emergence of grievances and the possibility to express them at the ballot box. Finally, in addition to being frequently tampered with (Schedler, 2002), voting is a binary decision that forces voters to bundle many political demands. As such, voting does not allow aggrieved individuals to publicly showcase their specific grievances. As a result, the ability to vote does not allow individuals with economic grievances to satisfactorily voice their demands.

Aggrieved individuals, thus, have to resort to other strategies to express their demands and dissatisfaction with the economic situation. Under these circumstances, people are more likely to protest. Not surprisingly, a number of studies indicate that grievances increase the likelihood that an individual will participate in protest (Bernburg, 2015; Grasso and Giugni, 2016; Kern, Marien, and Hooghe, 2015). After all, protesting ensures timeliness and public visibility of demands. In general, I would thus expect that economic grievances increase the likelihood of public protest and social unrest.

Yet not every aggrieved individual protests publicly. Protesting is costly. People have to mobilize, spend time preparing and protesting, and face repression and punishment for protest behavior (Carey, 2006; Davenport, 1995; Robertson, 2010). The decision to engage in protest thus depends on an individual calculation of the costs and benefits of becoming active. Protesting may benefit an individual by allowing him or her to publicly express his or her grievances and by increasing the chances to bring about change to an undesirable situation. Nonetheless, payoffs are not always large and may fall behind the costs. Therefore, it is not only vital that people have motives to protest, but it also matters in which circumstances they are mobilized (Tarrow, 2011).

Based on Palmtag, Rommel, and Walter (2018), I argue that individuals protest when they feel that their grievances are not just an individual problem, suggesting that it may be their own fault, but when a considerable number of other individuals share the same grievances. The costs of participation for individuals decrease the more similarly aggrieved individuals join the protest activity. This implies that the number of potential protesters – that is, other individuals with similar concerns – in close proximity matters, turning the sub-national situation into an important context.

What does this imply for the question of how FDI affects protest behavior? As discussed above, there is likely to be significant regional variation in the ratio of winners and losers of FDI, as well as in the exposure to FDI. In regions in which FDI plays only a negligible role (regions 1 and 3 in Figure 2.1), the groups of FDI winners and losers are small. This suggests that the fraction of people with FDI-induced grievances is low. For most people, motives for protest are not associated with FDI.

FDI plays a much more decisive role in regions that are highly exposed, especially when the regional workforce is on average poorly educated (region 4 in Figure 2.1). These regions comprise a large share of FDI losers and only few winners, which means that people experience economic grievances and thus have a motive for engaging in protest. As the overall welfare of the region declines simultaneously with the economic well-being of the majority of its citizens, compensation is unlikely. Whereas a small group of highly educated individuals gains from economic openness, the masses lose out. This is a hazardous situation, as comparison to a few that are better off tends to increase economic grievances and instigate protest (Gurr, 1970). Hence, these are the regions where the expression of economic grievances via public protest is most likely. The more exposed to FDI regions with a poorly educated workforce are, the more protests occur in that region (Palmtag, Rommel, and Walter, 2018).

Finally, protests should be least likely to occur in regions with a large group of FDI winners, that is regions with a highly educated workforce and high exposure to the global economy (region 2 in Figure 2.1). As the group of less educated FDI losers is relatively small, there are few potential fellow

protesters with whom to engage in protest activities. Moreover, given that these are regions that are doing well economically, these groups may even be compensated for their FDI-induced grievances through spillovers of the overall increase in regional welfare. In these regions, incentives for protest are therefore attenuated for the losers of FDI. This suggests that a growing regional exposure to international trade and FDI should have a pacifying effect on protest behavior in regions with a well-educated workforce.

### 2.5.2 Popular Uprisings

While regional protest is, thus, a characteristic part of autocratic politics, revolutions and popular uprisings are rare events. This seems surprising, since a large part of the population in autocratic regimes is fiercely harmed by FDI. Yet, it takes tremendous efforts to organize collective action that aims at political upheaval. This implies that regional grassroots protests only rarely cascade and spread into full-force popular uprisings. Protests are a vehicle to voice distinct grievances. As they serve the purpose of raising specific issues, they are limited in their scope, however.

In order for protest to disseminate into social unrest and popular uprisings, they have to be political in nature, not focus on economic issues alone, and need a critical mass of the population to participate. The disenfranchised masses are the societal group that should show the highest likelihood of participating in protests that threaten the regime. However, the masses are at the same time equipped with the lowest amount of associational resources. They do not possess the necessary political power to push for regime change; all the while economic grievances pile up. Masses typically participate in popular uprisings when wide-spread unrest is already taking place; they respond to, but not initiate large-scale protest (Pearlman, 2016).

This puts the middle class at the center of attention. Its members have the associational resources as well as the political ability to initiate popular uprisings. Grassroots protests rely to a large extent on common grievances. Revolutionary movements, on the other hand, depend further on the mobilization of pre-existing ties that need not necessarily be connected with shared concerns (McAdam, Tarrow, and Tilly, 2009; McCarthy and Zald, 1977; Tar-

row, 2011). Although the middle class possesses the latter, they do not face the same grievances as the masses. In other words, if exposed to FDI, the middle class does not have an incentive to engage in protests. By decreasing the middle class' willingness to protest, inducing a lack of motive, FDI strips the masses' catalyst to act against the autocratic regime. In sum, although FDI may spark regional economic protest, it does not increase the likelihood of popular uprisings that aim at bringing down the incumbent regime.

## 2.6 FDI and Autocratic Regime Survival

In the last step of the argument, I tie up the individual pieces of the theoretical mechanism and explain how foreign direct investment affects autocratic regime survival. Regime breakdown occurs for two reasons: either members of the regime's inner circle oust the dictator or parts of the population force the dictator to step down (Svolik, 2012). Societal forces, thus, have the ability to pose a credible threat to the power of the autocratic regime. As a consequence, autocratic rule depends on a support coalition that consists of members of the regime elite as well as the middle class. I argue that FDI increases the chances of autocratic survival, because it unfolds both a legitimacy-enhancing and a cooptation-enabling effect. Although FDI also induces risks and economic hardship for the masses, its benefits accrue mostly to those groups of actors that are indispensable for regime survival. Since it aligns the interests the regime elite and the middle class towards supporting autocratic rule, attracting FDI is as effective strategy for the regime to extend and prolong its rule.

**The Regime Elite** Foreign direct investment exhibits substantial distributional effects within the regime elite (see Section 2.2). For one, domestic business is substantially hurt by major reallocations of market shares if highly productive foreign companies enter the domestic economy. In contrast, domestic firms benefit from increasing foreign investment through increases in the overall supply of capital, which boosts demand for production inputs, and through technology and knowledge spillovers to domestic firms, which raise the productivity of domestic firms. Thus, members of the regime elite do not

benefit from FDI across the board.

In addition, economic risk for large business intensifies as FDI increases. Firms operating in specific sectors that have not yet been exposed to competition emanating from foreign companies, but rather benefit from spillover effects, adapt their expectations about future exposure to multinational corporations. Once fully liberalized, these firms might come under severe pressure. Higher risk should in turn decrease support for the autocratic regime and, taken to the extreme, lead to elite defections.

Nonetheless, there are two mechanisms that counterbalance this effect. First, even though political elites may not benefit from foreign investment across the board as well as face increasing risks, they have a comparative advantage with regards to access to political decision-making (see Section 2.1). Elites have the ability to fine-tune economic openness towards their needs (Hong and Park, 2016). If elites are powerful, autocratic regimes shield those sectors where domestic business makes most of their revenues (see Section 2.3). Doing so, increases the elites' profits, thereby enhancing the perceived economic performance of autocratic rule, which increases the belief in the legitimacy of the autocratic regime on the part of the elite (see the upper part of Figure 2.2).

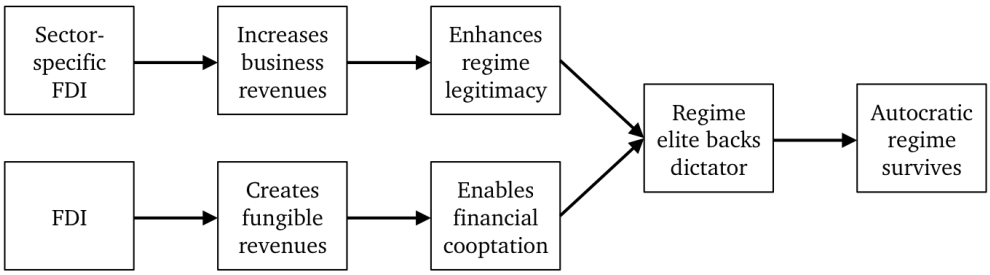



Figure 2.2: Foreign Direct Investment and the Regime Elite

Second, attracting FDI amplifies the financial means to meet the elite's demands, which allows the autocratic regime to offset the increasing insecurity among the regime elite. As a higher share of the population gains employment and consumption rates increase, the tax base gets larger resulting in higher tax and tariff revenues. The dictator does not even have to raise tax rates. Increasing revenues bolster the dictator's fungible budget without neg-

ative repercussions on the elite's perceived legitimacy of authoritarian rule (Ross, 2001; Arias, Hollyer, and Rosendorff, 2018). And the dictator can use these revenues to supply compensatory policy concessions, for example through cash benefits or public employment (Nooruddin and Rudra, 2014), to secure the support of the members of his support coalition (see the lower part of Figure 2.2). Taken together, FDI lowers the incentives of the regime elite to act against the dictator (Bak and Moon, 2016), which amplifies the survival prospects of the autocratic regime.

**The Middle Class** Apart from the regime elite, the middle class is oftentimes part of the support coalition. Many theoretical approaches characterize the members of this group as the driving forces of autocratic breakdown (Lipset, 1959; Moore, 1966; Rueschemeyer, Huber Stephens, and Stephens, 1992). Given the distributional effects of FDI, my argument suggests the opposite, however. Multinational corporations systematically demand workers with higher skill-levels compared to local firms. This results in higher wages for high-skilled individuals working in exposed sectors (Feenstra and Hanson, 1997). Additionally, even local firms producing in the exporting sector increase the wages of their workers after the entry of multinational corporations. On average, the members of the middle class are thus better off when exposure to FDI is high (see Section 2.2).

Yet, FDI not only boosts the middle class' economic well-being, it also changes their political preferences (see Section 2.4). Members of the middle class show higher satisfaction with the policy performance of the autocratic government, which increases the belief in the legitimacy of autocratic rule. Because they value political stability and are less aggrieved, the middle class has no incentive to initiate popular uprisings that aims at overthrowing the current regime (see Section 2.5).

FDI-related market income thus strengthens the support of the middle class for autocratic rule. What is more, the middle class does not become economically independent from the state. Economic well-being of the middle class is crucially dependent on the authoritarian regime (Bellin, 2000; Tang and Woods, 2014). Their economic situation improves because the autocratic leadership chooses policies, such as liberalizing FDI, that benefit them. In this

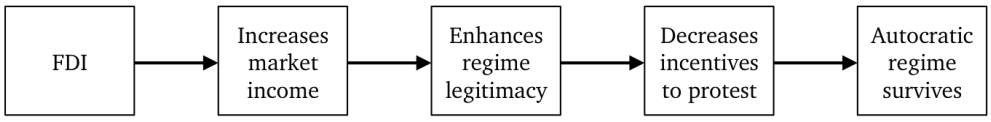



Figure 2.3: Foreign Direct Investment and the Middle Class

sense, output-legitimacy generated by foreign direct investment represents a substitute for the lack of input-legitimacy (Kim and Gandhi, 2010). Members of the middle class become "the allies of authoritarianism rather than the agents of democratic reform" (Bellin, 2002) and "trade the right to rule for the right to make money" (Ansell and Samuels, 2014, 46). Put together, I argue that preferences of the members of this group converge towards opting for stability and, thus, supporting the authoritarian regime in power (see Figure 2.3).

**The Disenfranchised Masses** While FDI benefits both the regime elite and the middle class, the disenfranchised masses lose out and do, on average, not make profit from foreign direct investment (see Section 2.2). The masses mostly possess skills that are not sought after by multinational firms and/or live in geographically remote areas where exposure to foreign direct investment is generally low. Given that domestic firms that either compete with foreign multinationals or supply these companies with inputs that are dependent on high-quality work, unskilled labor is most at risk of losing market income. Not surprisingly, the masses see only little virtue in autocratic rule and thus favor democratization (see Section 2.4). Although this group might have economic interests to pressure for democratization, they lack the power to push for political change (see Section 2.5). The masses are economically marginalized, unlikely to overcome problems of collective action, and do not have systematic access to power (Olson, 1965; Rudra, 2005*a*).

Summing up, the regime elite might not benefit from foreign investment as a whole, but has the political power to fine-tune economic openness to their advantage. The middle class benefits economically and supports stability on material grounds. The disenfranchised masses are not able to voice their regime preferences and do not represent a credible threat to dictatorial rule. Attracting FDI is thus a power maintenance strategy that simultaneously

appeases all members of the support coalition. Regime elites as well as the middle class "are particularly loyal because the risk and cost of exclusion if the challenger comes to power are high." (Bueno de Mesquita et al., 2003, 8). As a consequence, the higher the inflow of foreign direct investment, the longer is the duration of an autocratic regime.

**Autocratic Diversity** How does the diversity of autocratic support coalitions affect the regime-stabilizing effect of foreign direct investment? Autocracies vary with regards to the policy responsiveness, as societal groups are granted different levels of access to political decision-making and influence on power maintenance (see Section 2.1). One integral part of the argument is that autocratic regimes tailor FDI openness to the needs of their support coalition. Nonetheless, these groups of actors might still face insecurity as the dictator can always renege on policy concessions. For instance, research has shown that dictators sometimes use strategic expropriation to weaken the influence of some parts of the elite in order to signal exclusive reliance on other parts of the elite (Albertus and Menaldo, 2012).

Scholars stress the role of political institutions as devices to share power politically. Because class struggles exist, autocratic leaders create political institutions to incorporate specific groups of actors (Gandhi, 2008; Gandhi and Przeworski, 2007; Kim and Gandhi, 2010; Wright and Escriba-Folch, 2012). Two mechanisms explain the stabilizing effect of power-sharing agreements: First, political institutions are rather persistent, which works as an insurance device by signaling credible commitment on the side of dictators to live up to their policy concessions. Second, institutions in autocracies serve the purpose of regulating access to power and influence on policies. According to my argument, building support coalitions involves institutions, such as regime parties or civil society organizations. Relying on such power-sharing agreements thus serves as a credible commitment device to mitigate insecurity. Furthermore, they make it easier to provide certain goods, like guaranteed property rights (Wantchekon, 2000), allow the use of redistribution channels and institutional cooptation (Bader, 2015; Escribà-Folch, 2012), and are usually large enough to comprise groups of actors from diverse economic sectors (Steinberg and Malhotra, 2014).

This implies that the power of societal groups conditions the effect of FDI on autocratic survival. Elevated political power not only guarantees a policy environment that caters more to the needs of the respective societal group, a lot of influence in the autocratic support coalition also implies that the costs of reneging on such political concessions are high for the autocratic regime. As a consequence, the higher the relative power of either societal group, and thus the power concentration within the autocratic support coalition, the more does FDI secure the survival of autocratic regimes.

**Autocratic Breakdown** How do autocratic regimes ultimately break down in a globalized world? While the argument so far suggests that openness to foreign direct investment stabilizes autocratic regimes, this strategy also poses risks concerning autocratic survival. One particular risk is a sudden stop of FDI, due to developments outside the domain of the dictator. For instance, the Global Economic Crisis of 2008/2009 has seen a substantial drop in FDI inflows from industrialized democracies to autocracies. Although not directly affected, autocratic regimes' economies thus suffered from indirect consequences (Pepinsky, 2012). Under such conditions, autocratic regimes lose their ability to manage and fine-tune foreign direct investment.

As a reaction to sudden divestment shocks, the autocratic regime has to react with specific policies, like cuts in spending, introducing tariffs, or contractionary fiscal policies. Such adjustment policies induce distributional conflicts, however, which likely draw a dividing line within the support coalition (see Pepinsky (2009) for an application of this argument in case of financial crises). Because large-scale withdrawals of foreign direct investment occur instantaneously, the type of adjustment strategy depends on the societal foundation of autocratic rule. Shocks induced by foreign investment draw a dividing line between the regime elite and the middle class. In essence, the autocratic regime is between a rock and a hard place in deciding, which societal group to shield. Favoring the regime elite over the middle class increases the probability of popular uprisings, because the latter now not only have the resources, but also the motive to act against the dictator. Favoring the middle class over the regime elite, in contrast, increases the chance of elite coups. The bottom line is, while attracting FDI is typically a successful strategy to main-

tain power, it makes autocratic regimes vulnerable to sudden foreign direct investment stops.

In essence, my theoretical argument presents a new theoretical mechanism that connects foreign direct investment with autocratic politics. My explanation for why FDI facilitates autocratic regime survival – in normal times – rests on a combination of the societal structure of autocratic rule and the distributional consequences of international openness. The following chapters set out to test this argument against the data. I do not only test the main hypothesis, but several observable implications of the theoretical mechanism.

# Chapter 3

# Societal Group Power and FDI Openness

The first empirical chapter of this dissertation examines the question: Why and how much do autocracies liberalize foreign direct investment? If one wants to understand the impact of FDI on autocratic regime survival, it is necessary to look at the sources of foreign direct investment openness first. After all, liberalization of FDI constitutes a strategic move on the part of the dictator to reinforce domestic support for autocratic rule. The modernization and redistributivist approaches to autocracies in the global economy neglect this channel and do not provide a rationale regarding the sources of FDI openness. Rather, they see economic globalization as a structural factor to which autocracies have to adapt. I argue that both the regulatory environment regarding the mode of entry of multinational corporations as well as the overall amount of FDI inflows are subject to domestic politics.

While initially very wary of foreign direct investment, autocratic countries have undertaken tremendous efforts to liberalize access to and of international capital. A considerable number of countries now welcomes FDI as essential means to compensate for the lack of domestic investment (Pandya, 2014*a*; Stasavage, 2002). Not surprisingly, FDI has thus contributed to the overall improvement of economic conditions in autocratic developing countries (De Mello, 1997; Borensztein, De Gregorio, and Lee, 1998; Hansen and Rand, 2006). Notwithstanding its positive effects, some autocracies have however defied the trend to liberalize FDI. Hence, there is variation among auto-

cratic regimes with regard to the extent of FDI openness. Additionally, autocracies not only vary with regard to the regulatory environment for FDI, they are also different when it comes to the actual attractiveness for foreign investors.

## 3.1 FDI Openness in the Literature

Research that aims at investigating the domestic sources of FDI openness has so far concentrated on the connection between FDI flows and political regime types, especially with regard to the distinction between autocracies and democracies. Political regimes should play a decisive role when it comes to the level and form of international economic openness, because they affect the way decisions are made. Allegedly, democracies are more likely to liberalize FDI, as democratic institutions give voice to the potential beneficiaries of FDI (Pandya, 2014*a*). Additionally, democratic institutions create a stable political environment, which provides multinational corporations with incentives to invest (Jensen, 2003). The empirical results are mixed, however. Some studies indeed point to a democracy-advantage (Busse and Hefeker, 2007; Jakobsen and de Soysa, 2006; Jensen, 2003, 2006), others find mixed results or even an autocracy-advantage (Li and Resnick, 2003; Oneal, 1994; Resnick, 2001; Zheng, 2011). In a meta-analysis comprising 41 studies that examine the effect of democracy on FDI, Li, Owen, and Mitchell (2018, 36) come to the conclusion that "there is no clear and compelling evidence supporting the claim of the democratic advantage in attracting FDI."

In response, scholars of comparative politics are quick at arguing that these inconclusive results are due to the extraordinary institutional diversity of autocratic regimes, in contrast to relatively homogeneous democracies. Autocratic regimes differ as much from each other as they differ from democracy (Geddes, 1999; Geddes, Wright, and Frantz, 2014). Follow-up studies thus point to the effect different autocratic regime types have on a country's attractiveness for international investors. Yet, they too arrive at strikingly different conclusions. Frantz and Ezrow (2011) argue that international investors prefer policy stability. Due to fewer veto points, personalist autocracies therefore

receive only little foreign direct investment compared to single-party and military dictatorships. Knutsen and Fjelde (2012) stress the role of property rights as an insurance device for multinational corporations. In line with this view, they hypothesize and find that party-based regimes as well as monarchies are most successful in attracting FDI, whereas military regimes fare worst. Wright and Zhu (2018) further take differences between foreign investors into account. According to their analysis, personalist regimes provide a profitable investment environment for fixed asset investors. By decreasing political risk, party-based regimes on the other hand make themselves especially appealing for mobile-asset investors.

Research has thus concentrated on two aspects regarding the nexus between political regimes and FDI openness. For one, most studies focus on differences between political regime types using broad and aggregate measures of political regime types. Although these studies differ with regard to the precise causal mechanism, they furthermore share one common denominator: they stress the role of domestic institutions in shaping investment decisions made by multinational corporations. That is, research has investigated actual inflows of FDI as opposed to the domestic regulatory regime for FDI. I take a different perspective and contend that, before foreign multinationals can even consider investing, countries have to liberalize foreign direct investment. Hence, it is necessary to look at national policies to measure and explain differences in international economic openness. Empirical studies that investigate the de facto regulatory regime of FDI openness are rare. In a first attempt, Pandya (2014*a*) finds that democratization spurs FDI liberalization. Pond (2017) shows that this effect comes about because democratic institutions facilitate decision-makers' responsiveness to workers' demands for FDI. Yet, both studies leave differences between autocracies unattended.

## 3.2 Observable Implications of the Argument

To understand the variation in FDI openness in autocratic countries, I argue that variation in the level and form of FDI openness is subject to domestic politics. Autocratic regimes care about domestic power maintenance first, about

international investors second. To hold on to power, dictators rely on societal groups for support, which in turn gives these groups influence in decision-making. The decision to liberalize FDI is thus a function of the power of different societal groups in conjunction with their respective material interests.

Potential exposure to foreign investment induces distributional effects that shape political preferences in two ways: First, it directly and immediately reallocates economic resources between domestic firms and foreign multinationals (effect on competition) as well as between domestic firms (effect on the supply chain). Domestic firms that compete directly with foreign firms face stark adverse effects on their revenues. However, domestic firms may also benefit from increasing foreign investment if they are part of the supply chain of multinational corporations. Taken together, the regime elite may not win across the board and prefers fine-tuning FDI openness to their advantage.

Second, foreign investment raises the share of firms in the tradables sector that are competitive in world markets. Multinational investors systematically demand workers with higher productivity levels. This results in higher wages for highly-skilled individuals working in exposed sectors. Additionally, even local firms increase the wages of their workers to be able to serve as suppliers. On the downside, reallocation of resources in the domestic economy forces some firms to serve the domestic market only or shut down their business entirely. Because those workers have lower average productivity-levels they face downward pressure on their wages and higher job insecurity. Nevertheless, the better part of the middle class, i.e. productive workers and small business owners, especially in urban areas, prefers economic openness.

Going a step further, I argue that the interests of these societal groups shape political demands and thus expand into political decisions, even in autocratic regimes. Yet, autocracies differ markedly with regard to the power such groups have in the policy-making process. If the middle class can effectively raise their demands, dictators choose to lower entry restrictions and allow FDI in a multitude of economic sectors. In contrast, if the middle class cannot pose a credible threat to the power of the dictator, the dictator's policies regarding openness to FDI cater towards the needs of the elite. In line with this argument, I hypothesize:

*H3.1: The more powerful the middle class, the less entry restrictions for multinational investors. Conversely, the more powerful the regime elite, the more entry restrictions.*

Apart from entry restrictions, I argue that the political power of societal groups similarly shapes the attractiveness of autocracies for multinational corporations. Foreign direct investment is a long-term investment in physical capital in another country (Jensen, 2003). Because such capital is immobile in the short run, investors seek to safeguard their investment from expropriation. Politically powerful societal groups work as a credible commitment device of the autocratic regime to signal policy stability to international investors, as reneging on FDI openness violates the demands of those societal groups that are essential for autocratic survival. Hence, I hypothesize:

*H3.2: Political power of either societal group increases actual FDI inflows. Yet, the effect of regime elite power on FDI inflows is substantially smaller than the effect middle class power.*

## 3.3 Measuring the Societal Base of Modern Autocracies

Not only do societal groups in autocracies prefer different forms and levels of FDI openness, they have varying political power, depending on their inclusion in autocratic support coalitions. This section deals with measuring their political power. I build two separate indexes for regime elite and middle class power. In what follows, I discuss the the dimensions and indicators used for the construction of the indexes. Building on this, I present the main insights and discuss the concept validity of the measurement.

Autocratic regimes manage the strength of their support base by granting or denying associational resources. Associational resources help societal groups to organize and form demands, overcome problems of collective action to voice those demands, and additionally provide an insurance mechanism against indiscriminate repression. On the part of the regime elite, I focus on party-based institutional resources and distinguish between party monopolization within the autocratic regime and dominance within the regime party

itself. Furthermore, I also take interest heterogeneity among the regime elite into account. On the part of the middle class, I distinguish between three associational resources: the formation of civil society organizations, the costs of organization via economic repression, and the scope of policy deliberation.

### 3.3.1 Index Construction

I use data provided by the Varieties of Democracy project to measure the influence societal groups have on autocratic decision-making. V-Dem gathers data on several hundred political characteristics of countries utilizing ratings by more than 2500 experts (Coppedge et al., 2015). With the help of Bayesian item response models, the individual expert codings are combined into country-year scores that resemble both the coding itself as well as the uncertainty across multiple country experts (Pemstein et al., 2015). Data is available for almost all autocratic country-years between 1970 and 2010.[1] Given the broad data availability and the diversity of indicators, V-Dem has an edge over other data sources. For reasons of comparability, I rely exclusively on this data source.

Both indexes consist of three dimensions, each of which are measured using several indicators. To arrive at the final index values, I proceed in several steps: First, I use the relative scale from the V-Dem measurement model to make sure that indicators with unequal numbers of response categories are comparable (Pemstein et al., 2015). Second, I standardize each indicator to a continuous measure with a range between 0 and 1. Third, I take the mean of the respective number of indicators for each dimension. To arrive at the final index, I take the mean across the three dimensions.

I perform this procedure for the power of the regime elite and the middle class. In case of the middle class, all indicators are originally coded such that higher values point into the direction of a stronger middle class. In case of the regime elite, all indicators are originally coded such that higher values point into the direction of a weaker regime elite. Thus, I reverse the scale of

[1] Because data on FDI is only available from 1970 onwards, I limit the time period of the power indexes accordingly. There are four autocratic countries, for which data on FDI is available, but the V-Dem dataset (version 6.2) does not (yet) provide information: Kuwait, Oman, Singapore, and United Arab Emirates.

this index. The two resulting indexes have a theoretical range between 0 and 1. Higher values imply more power in autocratic decision-making. For reasons of interpretation, I also provide an index that is standardized to a mean of 0 and a standard deviation of 1. As the index construction is confined to autocratic regimes, a positive (negative) score implies that the respective power is higher (lower) than the overall average in all autocracies.

### 3.3.2 Power of the Regime Elite: Dimensions and Indicators

To measure the political power of the regime elite, I focus on three dimensions: the monopolization of party power within the regime, the concentration of power within the party, and the social stratification within society. The first two indicators specifically address the strength of regime parties to measure elites' power in autocracies. It is rather implausible that individual elites are able pose a credible threat to the power of the dictator. Power to influence policy arises from institutionalized access (Gehlbach and Keefer, 2011; Magaloni, 2006). Thus, regime parties increase the associational resources of the regime elite. They accumulate diverse interests and help formulate political demands. At the same time, institutionalized access serves as an insurance device against indiscriminate repression, which makes replacing elites much more difficult (Albertus and Menaldo, 2012). In addition, parties solve collective action problems on the part of the elite, as they provide a forum for deliberation. The opportunities of regime elites to fine-tune policies thus increase if they are incorporated in regime parties. I focus on two dimensions of regime party strength: monopolization of party power within the autocratic regime and concentration of power within the regime party.[2] The third dimension addresses the homogeneity of interests among the members of the regime elite. Voicing policy demands should be more credible when spoken with one voice. Assuming that the cohesion of political demands is greater within so-

[2] V-Dem provides a party system institutionalization index. However, this index does not measure the power of the dominant regime party, but rather the institutionalization of the party system (Coppedge et al., 2015, 61). This index may thus assign high values to countries where a dominant party forms the party system as well as where multiple parties jointly make up the party system. In addition, Bizzarro et al. (2018) construct a party strength index using multiple V-Dem indicators. Yet, this index captures the strength of the influence of political parties in general, regardless of their number or dominance.

cial or ethnic groups than across, interest homogeneity should enhance regime elite power.

The first dimension – monopolization of within-regime party power – is measured with three indicators. First, the indicator party bans (v2psparban) captures: "Are any parties banned?" (Coppedge et al., 2015, 123). Answers are coded on a 5-point scale ranging from 'all parties except the state-sponsored party' to 'no parties'. Second, the indicator barriers to parties (v2psbantar) captures: "How restrictive are the barriers to forming a party?" (Coppedge et al., 2015, 124). Answers are coded on a 5-point scale ranging from 'parties are not allowed' to 'no substantial barriers'. Third, the indicator opposition party autonomy (v2psoppaut) captures: "Are opposition parties independent and autonomous from the ruling regime?" (Coppedge et al., 2015, 125). Answers are coded on a 5-point scale ranging from 'opposition parties are not allowed' to 'all parties are autonomous'. These indicators directly relate to the associational resources of the regime elite. Lower indicator ratings imply that one party monopolizes power within the autocratic regime. When monopolization is high, regime elites have an edge in accessing the dictator, which increases their political power.

The second dimension – concentration of within-party power – is measured with two indicators. First, the indicator party linkages (v2psprlnks) captures: "Among the major parties, what is the main or most common form of linkage to their constituents?" (Coppedge et al., 2015, 126). Answers are coded on a 5-point scale ranging from 'clientelistic' to 'policy/programmatic'. Second, the indicator candidate selection (v2pscnslnl) captures: "How centralized is legislative candidate selection with the parties?" (Coppedge et al., 2015, 127). Answers are coded on a 6-point scale ranging from 'selected exclusively by national party leaders' to 'chosen by constituent groups or direct primaries'. Lower indicator ratings mirror high concentration of power within the regime party. Recruitment is highly centralized and focuses more on distributing economic perks. Power concentration increases elites' political power, because it eases the way particularistic demands can be transported towards the autocratic regime.

The third dimension – homogeneity of interests – is measured with two

indicators. The first indicator relates to the homogeneity of socioeconomic positions (v2pepwrses) and captures: "Is political power distributed according to socioeconomic position?" (Coppedge et al., 2015, 249). Answers are coded on a 5-point scale ranging from 'wealthy people enjoy a virtual monopoly on political power' to 'wealthy people have no more political power than those whose economic status is average or poor.' The second indicator relates to the homogeneity of the social position (v2pepwrsoc) and captures: "Is political power distributed according to social groups?" (Coppedge et al., 2015, 250). Answers are coded on a 5-point scale ranging from 'political power is monopolized and institutionalized by one social group comprising a minority of the population' to 'all social groups have roughly equal power.' Lower indicator ratings conform to less interest heterogeneity, which amplifies the associational resources of the regime elite.

### 3.3.3 Power of the Middle Class: Dimensions and Indicators

To measure the political power of the middle class, I focus on three dimensions that capture the extent of associational resources to pose a credible threat to the power of the autocratic regime: the ability to form civil society organization (CSOs), the potential economic costs of participating in collective action, and the possibility to deliberate on policies. The first dimension captures if interest groups are generally allowed and thus refers to the capacity of the middle class to overcome collective actions problems in formulating their demands (Kim and Gandhi, 2010). The second dimension captures how costly it is for the middle class to engage in such activities. High economic dependency on the state should generally deter people from organizing, because they still have to make a living (Bellin, 2002).[3] The third dimension concerns the ability of the population for deliberation. More deliberation not only goes along with more opportunities to voice specific demands, but also facilitates negotiations among members of the society (Chandra and Rudra, 2015).

The first dimension – the ability to form civil society organization –

[3] V-Dem provides a core civil society index. However, this index only measures the de jure ability of the middle class to organize, but excludes to costs of participating (Coppedge et al., 2015, 56); see also Bernhard et al. (2017).

is measured with three indicators. First, the indicator CSO entry and exit (v2cseeorgs) captures: "To what extent does the government achieve control over entry and exit by civil society organizations into public life?" (Coppedge et al., 2015, 235). Answers are coded on a 5-point scale ranging from 'monopolistic control' to 'unconstrained.' Second, the indicator CSO repression (v2csreprss) captures: "Does the government attempt to repress civil society organizations?" (Coppedge et al., 2015, 236). Answers are coded on a 5-point scale ranging from 'severely' to 'no repression.' Third, the indicator CSO participatory environment (v2csprtcpt) captures: "Which of these best describes the involvement of the public in civil society organization?" (Coppedge et al., 2015, 238). Answers are coded on a 4-point scale ranging from 'most associations are state-sponsored' to 'many diverse CSOs.' Higher indicator ratings not only imply that members of the middle class can join forces in making demands. More opportunities to make use of organizational capacities increase the associational resources of the middle class.

The second dimension – the costs of organizing – is measured with two indicators. First, the indicator state ownership of the economy (v2clstown) captures: "Does the state own or directly control important sectors of the economy?" (Coppedge et al., 2015, 220). The answers are coded on a 5-point scale ranging from 'virtually all valuable capital belongs to the state' to 'very little valuable capital belongs to the state.' Second, the indicator property rights (v2xcl_prpty) captures: "Do citizens enjoy the right to private property" (Coppedge et al., 2015, 222). The answers are coded on a 6-point scale ranging from 'virtually no one' to 'virtually all citizens.' Higher indicator ratings resemble that the state controls only little of a country's production factors, which makes the use of economic repression more difficult. Because less repression capabilities make the members of the middle class immune, the costs of collective action are smaller, which facilitates middle class power.

The third dimension – the scope of policy deliberation – is measured with two indicators. First, the indicator CSO consultation (v2cscnsult) captures: "Are major civil society organizations routinely consulted by policymakers on policies relevant to their members?" (Coppedge et al., 2015, 237). The answers are coded on a 3-point scale ranging from 'high degree of insula-

tion of the government from CSO input' to 'important CSOs are recognized as stakeholders in important policy areas and given voice.' Second, the indicator engaged society (v2dlengage) captures: "When important policy changes are being considered, how wide and how independent are public deliberations?" (Coppedge et al., 2015, 195). The answers are coded on a 6-point scale ranging from 'public deliberation is almost never allowed' to 'large numbers of non-elite groups as well as ordinary people tend to discuss major policies.' Higher indicator ratings show higher potential for policy deliberation among the middle class, which increases their associational resources.

### 3.3.4 Comparing and Validating Societal Group Power

What do these indexes say about the power of societal groups in autocracies and autocratic diversity? To begin with, the resulting measures do not constitute a regime typology. As of now, there are several widely used regime typologies. For instance, Geddes, Wright, and Frantz (2014) distinguish between party-based, military, personalist and monarchic regimes. Cheibub, Gandhi, and Vreeland (2010) categorize autocracies into civilian, military, and royal dictatorships. The regime typology of Wahman, Teorell, and Hadenius (2013) comprises of military regimes, monarchies, as well as no-party, one-party, and multi-party regimes. All of these typologies assume that "different kinds of authoritarianism differ from each other as much as they differ from democracy" (Geddes, 1999, 121), which makes it impossible to order regimes on one or more dimensions.[4] In contrast to this view, Howard and Roessler (2006) provide an institutional typology that centers on the dimension of electoral competition. Regimes without elections are closed autocracies. Regimes that hold uncontested elections belong to the category of hegemonic autocracies. Finally, competitive authoritarian regimes hold contested elections that are, however, not free and fair. If elections are additionally free and fair, regimes become democratic. I depart from these typologies and assume that autocratic diversity revolves around two distinct dimensions.

My measurement is confined to autocratic regimes, thus following the

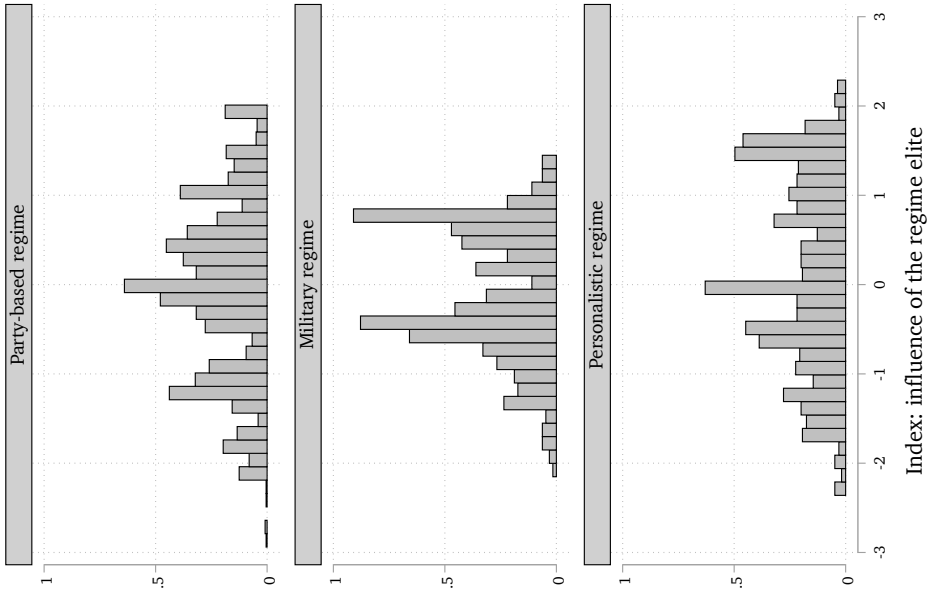
[4] Roller (2013) provides an excellent overview of the differences between these regime typologies.

logic to organize political regimes as a difference in kind (democracy versus autocracy), before one of degree (Svolik, 2012). Measuring autocratic diversity in such a way offers several advantages: First, it goes beyond the categorization of autocratic regimes into broad autocratic regime types. Differences between autocratic rule emanate from differences in the autocratic support coalition, but are much more fine-grained than broad regime typologies have assumed. Second, I measure two distinct dimensions – the influence of the elite and the influence of the middle class – which allows more variation and does not assume that one societal group always possesses high political power. To make this notion more tangible, I present the findings split by the type of autocratic regime, utilizing the most widely used typology of Geddes, Wright, and Frantz (2014).[5]

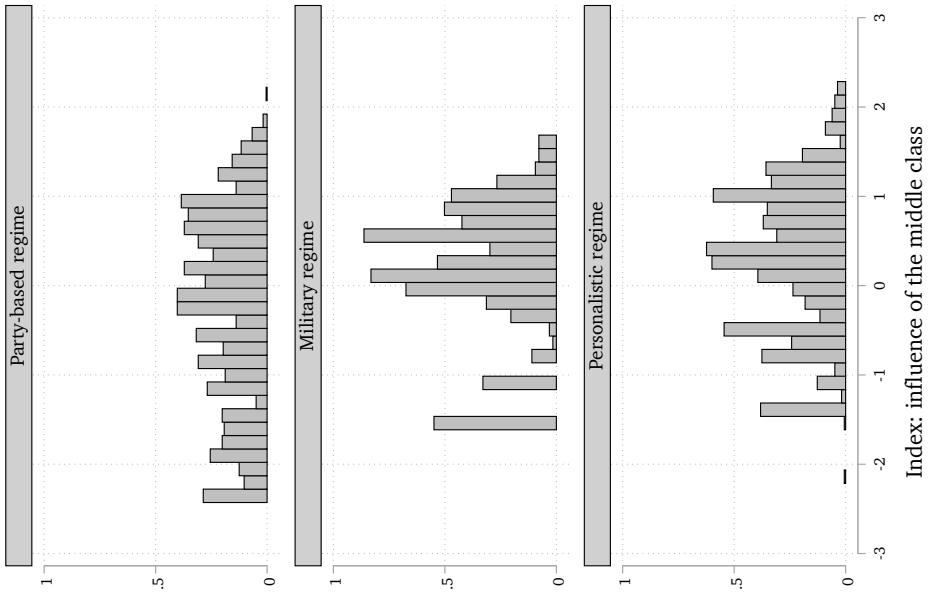
Figure 3.1a presents the distribution of regime elite power in different autocratic regimes. Here, I use the standardized power index. Because I restrict the construction of the index to autocratic regimes and standardize it to a mean of 0 and a standard deviation of 1, the resulting scores are easily interpretable. A positive (negative) score implies that the influence of the regime elite is higher (lower) than the overall average in all autocracies. First of all, there is variation with regard to regime elite power across autocratic regime types. While the regime elite is most powerful in personalist (mean = .14) and least powerful in military (mean = –.11) regimes, party-based autocracies occupy a middle ground (mean = –.07). More importantly, variation of regime elite power is higher within autocratic regime types than between different types of authoritarianism. For every political regime type, there are regimes where elite power is either high or low. Among contemporary party-based regimes, elite power is highest in North Korea, but lowest in Namibia. In case of military regimes, the regime elite has had substantial influence in Chile under Augusto Pinochet, but influence was almost negligible in Pakistan under Pervez Musharraf. As for personalist or monarchic regimes, the regime elite is less able to influence politics in Belarus, as opposed to Saudi Arabia.

Figure 3.1b on the other hand shows the distribution of middle class

[5] In line with the earlier measurement by Geddes (1999), I subsume personalist and monarchic regimes. This is due to the fact that the number of monarchic country-years is limited.




(a) Regime Elite Power in Autocratic Regimes




(b) Middle Class Power in Autocratic Regimes

Figure 3.1: Societal Group Influence in Autocratic Regimes

power in different autocratic regimes. Again, positive (negative) scores imply above (below) average decision-making influence. Military (mean = .20) and personalist (mean = .27) regimes hand over more decision-making power to the middle class than party-based regimes (mean = –.25). A look a the within-regime type variation reveals once more that authoritarian regimes are not nearly as cohesive as previously assumed. Rather, there is high variation within different types of dictatorship, but less variation between them. Between 1970 and 2010, North Korea (a party-based regime), Myanmar (a military dictatorship), and Libya (a personalist autocracy) have actively limited the power of the middle class. On the other side of the spectrum, middle class influence is strong in party-based Botswana, military Pakistan, and personalist Armenia. Thus, strong as well as weak middle classes exist in otherwise vastly different autocratic regimes. Taken together, differentiating only between types of dictatorship underestimates the influence societal groups have on policy-decisions made by the autocratic regime.

How valid are these measures in capturing differences in the societal make-up of autocracies? As comparable two-dimensional indexes do not exist, concept validity is not readily testable. Nevertheless, my argument suggests some observable implications that we should see in the data if the indexes really measured what they were supposed to measure. For one, both indexes should be correlated negatively. Dictators choose their coalition by maximizing support under the constraint of holding the general level of societal group influence at a minimum. This indicates that there is a trade-off between different societal groups and autocratic regimes generally rely on the support of the regime elite or the middle class or a mixture of the two groups. Figure 3.2 plots the joint distribution of the societal group power indexes. The correlation between political power of the regime elite and political power of the middle class is evidently negative (r = –.54). The measures, thus, show the expected trade-off.

Furthermore, the regime elite should be, on average, more powerful than the middle class, because their baseline access to the autocratic regime is higher. Focusing on the absolute power index that is bound between 0 and 1, this is indeed the case. The power of the elite (mean = .56) is much greater

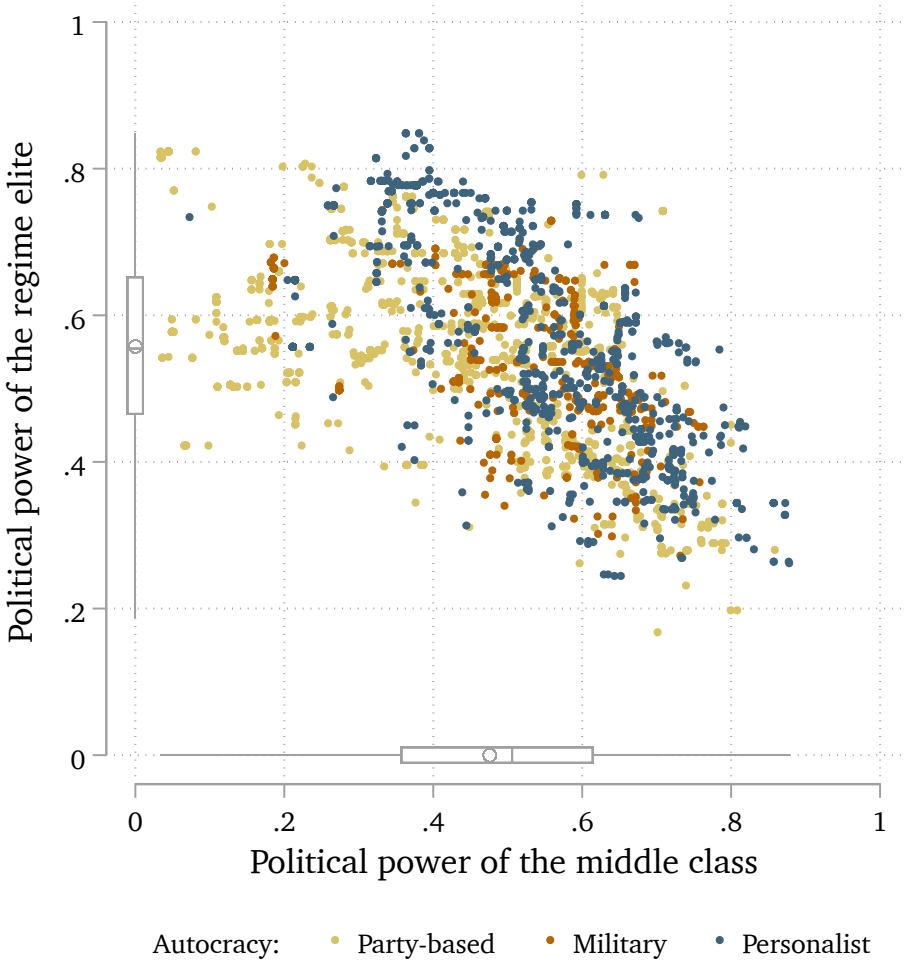



Figure 3.2: Mapping the Political Power of Societal Groups

Table 3.1: Political Power of Societal Groups in Autocracies

| | | *Middle Class Power* | | |
|---|---|---|---|---|
| | | Low | High | Total |
| *Regime Elite Power* | High | 1370 (45.42%) | 655 (21.72%) | 2025 (67.14%) |
| | Low | 114 (3.78%) | 877 (29.08%) | 991 (32.86%) |
| | Total | 1484 (49.20%) | 1532 (50.80%) | 3016 (100.00%) |

*Note:* Cells depict the number of autocratic country years.
'low' implies index <= .5; 'high' implies index > .5.

than the power of the middle class (mean = .47). Relatedly, only a negligible number of dictators should have no power base in society, whereas some dictators might rely on the support of more than one group. Therefore, at least one group should be part of the support coalition. I test this by subdividing the data into four groups – low and high elite power as well as low and high middle class power. Table 3.1 shows the results, where the cutoff point is the theoretical mean of the distribution (cutoff = .5). Again, autocratic leaders rely more heavily on the regime elite. Two in three autocratic country-years are marked by high regime elite power. In contrast, middle class power is almost evenly divided. Importantly, less than 4% of all autocratic country-years are marked by low power of either societal group.

Lastly, middle class power should correlate with the democratic quality of political institutions. After all, some dimensions between these concepts overlap. For instance, the autocratic regime with the highest score on the middle class power index, Botswana, nowadays fulfills many requirements of democratic governance and is sometimes already coded as democracy (Boix, Miller, and Rosato, 2013). Using the combined scores of Polity IV and Freedom House, the correlation between middle class power and democracy is fairly strong (r = .55). Although this may seem high, continuous democracy indicators are usually correlated to a much higher degree. For example, the Polity IV and Freedom House indicators are correlated at a degree of r = .9. The large discrepancy between these correlations increases my confidence that the index of middle class power measures something other than democracy.

## 3.4 Research Strategy

In this section, I investigate whether societal groups are able to influence autocracies' openness to FDI. This test serves a double purpose. To begin with, it helps to understand why and how dictators open up to international investment. On top of that, it probes whether the notion to conceptualize autocratic regimes in terms of the societal groups is more appropriate than focusing on broad regime types, especially when the interests of different groups of actors are not in accord. I test the hypotheses in a cross-sectional time-series setting on a sample of up to 92 autocratic regimes between 1970 and 2010.

### 3.4.1 Dependent Variables

My argument distinguishes between two components of FDI openness: entry regulations for multinational corporations and actual FDI attractiveness. In the following analysis, two dependent variables measure the first component, i.e. the domestic regulatory regime for international investors. On the one hand, I use data from the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions database. Over the period between 2000 and 2010, this database contains different capital account restrictions, for example inward FDI restrictions. Hence, the dependent variable is coded 1 if a representative multinational corporation faces difficulties and restrictions to move capital into a country (IMF, 2017; Pond, 2017). According to this data source about 69% of all countries had put up restrictions for international investors. Given the ongoing trend in FDI liberalization, this number seems very high. However, this is due to the fact that the IMF codes any restrictions on FDI, regardless of their severity or the scope of these restrictions. Thus, even if coded 1 – i.e. restrictions are in place – a country must not restrict FDI entirely. This rather speaks to a country's willingness to fine-tune FDI openness.

Because this indicator covers only a short time period, I additionally include data on sectoral entry restrictions for FDI. This variable captures the national-level regulatory environment of foreign capital and connects more closely with the theoretical argument in the sense that autocratic regimes might restrict foreign ownership only in specific sectors. Autocratic govern-

ments have a variety of tools at their disposal to regulate the entry of multinational corporations. For example, foreign firms may be completely banned from investing. Or, countries may put up limits on the equity share of foreign multinationals. That is, MNCs have to built joint ventures with local firms in order to invest and are not allowed to hold a majority share. Based on two US government publications – the *Overseas Business Report* and the *National Trade Barrier Estimates* – Pandya (2014*b*) codes for each industry in the International Standard Industrial Classification (ISIC Rev. 3) whether US companies face entry restrictions. By aggregating to the level of country-years, this dependent variable measures the yearly share of industries in each country that are sheltered from foreign ownership via regulatory policies.

The 1970s initially saw a sharp overall increase in entry restrictions (see Figure 3.3). By the end of this century countries had put up entry restrictions in about 30% of all industries. The following two decades were marked by a gradual decrease in foreign entry restrictions, which implies that more and more countries started to liberalize FDI entirely or turned away from restricting access to certain economic sectors. As of 2000, countries shelter an average of 10% of all industries from foreign ownership.

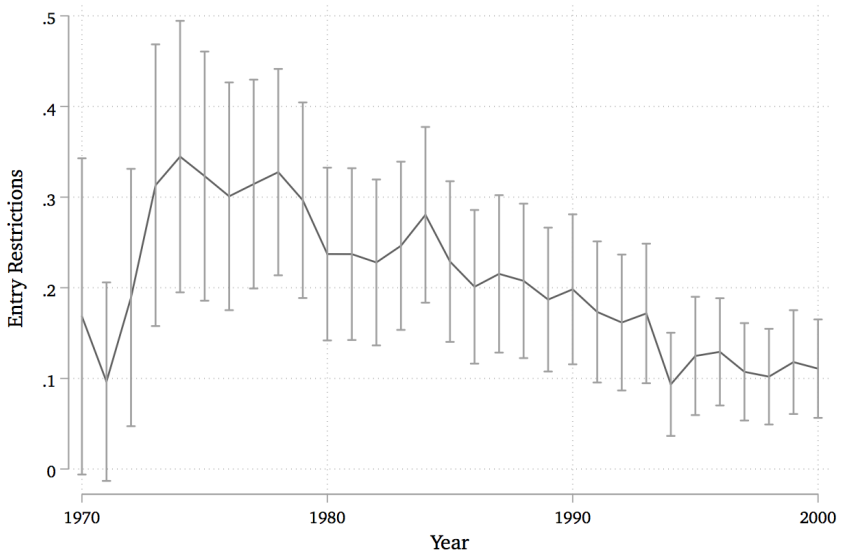



Figure 3.3: Sectoral Entry Restriction in Autocratic Regimes

In addition to entry restrictions, I also examine the second component of FDI openness: a country's attractiveness for multinational corporations. I focus on FDI inflows, which represent the acquisition of physical capital by a foreign individual or legal entity in the domestic economy via acquisitions or joint ventures (Jensen, 2006; UNCTAD, 2009). I exclude FDI outflows, i.e. the acquisition of physical capital by domestic legal entities in foreign countries, since they most likely capture exit restrictions. To reflect how important inflows are for the national economy, and thus how open a country is to FDI, I measure FDI inflows as the share of GDP (Li, Owen, and Mitchell, 2018). Because FDI flows are right-skewed, I log-transform this variable. One obstacle in this regard is that negative FDI inflows would be omitted. To overcome this caveat, I use the log-transformation proposed by Busse and Hefeker (2007) in Equation 3.1, which is applicable to negative values.

$$lnFDI_{it} = ln\left(FDI_{it} + \sqrt{(FDI_{it}^2 + 1)}\right) \tag{3.1}$$

Figure 3.4 shows the astounding rise of FDI inflows in autocratic regimes. Beginning in the early 1990s, FDI openness skyrocketed. Importantly, this trend coincides with the gradual abolishment of entry restrictions.

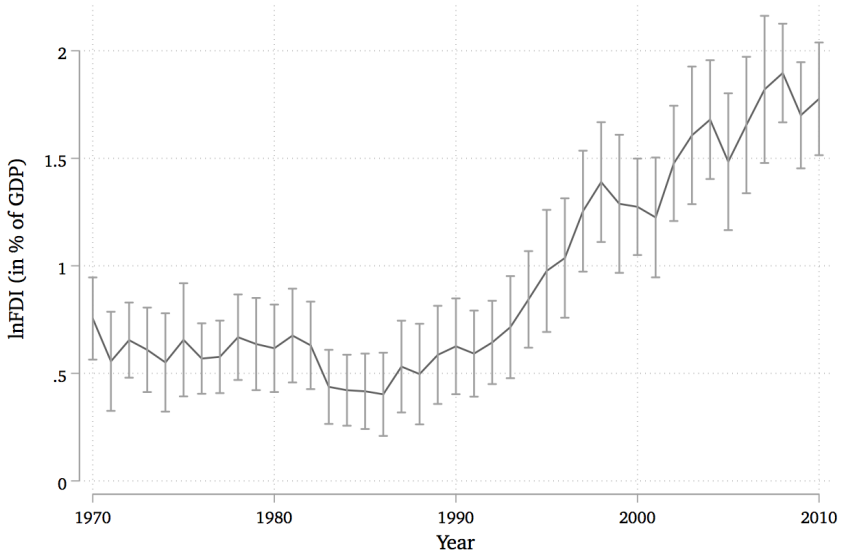



Figure 3.4: FDI Inflows in Autocratic Regimes

Taken together, the three dependent variables capture related but different dimensions of FDI openness. Overall investment restrictions and sectoral entry restrictions focus on domestic policies. These variables are thus uniquely able to test how societal groups shape political decisions regarding foreign direct investment liberalization. Yet, entry restrictions do not allow to examine the actual attractiveness of a country for foreign multinationals and, thus, capture only de jure FDI openness. FDI inflows on the other hand measure de facto openness. They additionally include investment decisions by multinational corporations that are not solely contingent on the willingness of a country to liberalize FDI, but also on location advantages.

### 3.4.2 Model Specification

The main independent variables are the political power indexes of societal groups in autocratic politics. Following the discussion in the previous section, I distinguish between the influence of the middle class and the influence of the regime elite. In line with my argument, I expect the middle class to push for greater openness to FDI. As such, a stronger and more incorporated middle class should be negatively correlated with entry restrictions, but positively associated with actual FDI openness. To the contrary, regime elites should be much more wary about direct competition with foreign investors, thus working towards a more encompassing regulatory environment, exemplified by a positive effect on entry restrictions. In include both measures simultaneously to account for relative shifts in the political power of societal groups. Thus, the results show the effect of a change in regime elite (middle class) power, holding constant the political power of the middle class (regime elite).

In the baseline specifications, I control for other explanations of FDI openness (see, Jensen, 2003; Pandya, 2014*a*). My argument suggests that societal groups can, through their power to shape autocratic decisions, provide additional location advantages by contributing to a stable policy environment. Therefore, I want to hold other sources of location advantages constant. The size of the population in billion and the level of economic development measured in trillion real GDP per capita are proxies for the size of the domestic economy (data from Heston, Summers, and Aten (2012), unless indicated

otherwise). As such, they directly capture location advantages for multinational corporations. Furthermore, natural resources are highly attractive and scarce resources for international investors. Thus, I additionally include oil production in million metric tons (Ross and Mahdavi, 2015). In addition to controlling for location advantages, I include two variables that proxy for a country's need to attract FDI as a substitute for the shortage of domestic investment. On the one hand, I include the growth rate of GDP. Low growth is oftentimes caused by a lack of investment. On the other hand, countries might choose to resort to international investment in order to uphold the consumption expenditures of the government. Furthermore, I include trade openness, defined as the sum of imports and exports over GDP, to control for the general openness of a country to the global economy. Lastly, I include lagged FDI inflows to account for the fact that FDI is a long-term investment. To check the robustness of these models, I include autocratic regime types using the typology of Geddes, Wright, and Frantz (2014) to directly contrast the effect of societal groups with the effect of broad regime typologies. Moreover, I include a continuous democracy indicator that combines scores from Polity IV and Freedom House. Because middle class power is correlated with democracy, doing so tests whether societal groups make a difference, even if the level of democracy is held constant. All control variables are lagged by one year.

My preferred model specifications are cross-sectional time-series regression models including time fixed effects. In case of dichotomous investment restrictions, I use a probit model with country-level random effects. Because sectoral entry restrictions are by definition bound between 0 and 1, but not dichotomous, I use fractional probit models that include country dummies.[6] As for actual FDI openness, I rely on an OLS model with country-level fixed effects. Standard errors are clustered on the country level in each model.

## 3.5 Empirical Evidence

I provide two sets of evidence in support of the argument that societal groups are able to influence overall and sectoral entry restrictions. Models 1 to 4

[6] The results are generally robust to a fixed effects OLS model.

in Table 3.2 investigate overall investment restrictions obtained from the IMF (2017) and include 585 observations, nested in 63 autocracies between 2000 and 2010. Models 1 to 4 in Table 3.3 investigate sectoral investment restriction using data from Pandya (2014*a*) and cover a maximum of 910 observations, nested in 59 autocratic regimes between 1970 and 2000. For both dependent variables, model 1 reports the baseline specification. Model 2 adds the type of autocratic regime. Model 3 includes lagged FDI inflows. Model 4 adds the combined Freedom House/Polity IV democracy indicator.

The political power of societal groups shows a consistent pattern across both dependent variables and all model specifications. In line with my argument, increasing political power of the middle class goes along with decreasing overall as well as sector-specific investment restrictions. The negative coefficient of middle class power is statistically significant across the board. Apart from its statistical significance, the effect is also substantial in size. Holding the control variables at the mean, a one standard deviation increase in middle class power, reduces the probability that autocratic regimes put up overall restrictions to foreign direct investment by 5.9 percentage points. The effect is even bigger when it comes to sectoral entry barriers. Here, a one standard deviation increase in middle class power is associated with a 6.8 percentage point decrease in entry restrictions. This corresponds to a sizeable effect of four additional domestic sectors that are open to FDI.

In contrast, the effect of regime elite power is positive and statistically significant. The more politically powerful the regime elite, the higher are entry barriers for multinational investors. A one standard deviation increase in elite power increases the probability of overall investment restriction by 14.7 percentage points. Although this effect is consistent across all models, it is somewhat weaker for sectoral barriers on multinational corporations. Especially when compared to the power of the middle class, is the effect substantially smaller. If the power of the regime elite increases by one standard deviation, roughly one domestic sector gets sheltered from direct competition emanating from multinational corporations. Nonetheless, both results strongly support Hypothesis H3.1. Societal groups are able to make a decisive difference in autocratic policy-making, provided they have sufficient political power.

Table 3.2: Societal Groups and Overall Investment Restrictions

| | Investment Restrictions | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Middle class power | –14.706** | –15.184** | –15.510* | –15.971** |
| | (6.84) | (7.49) | (8.35) | (6.70) |
| Regime elite power | 16.064** | 20.075* | 15.061** | 21.118** |
| | (8.10) | (10.54) | (7.34) | (9.71) |
| Population size | –11.452 | –11.506 | –26.184 | –7.895 |
| | (61.96) | (49.10) | (129.60) | (55.86) |
| Economic development | 4.054 | 2.677 | 5.296 | 1.161 |
| | (13.74) | (11.27) | (43.11) | (8.97) |
| Economic growth | 0.027 | 0.027 | 0.049 | 0.050 |
| | (0.03) | (0.02) | (0.03) | (0.03) |
| Trade openness | 0.001 | –0.000 | –0.004 | –0.005 |
| | (0.01) | (0.01) | (0.01) | (0.01) |
| Government consumption | 0.405 | 0.382 | 0.382 | 0.392* |
| | (0.25) | (0.25) | (0.27) | (0.21) |
| Oil production | 0.099 | 0.063 | 0.121 | 0.098 |
| | (0.12) | (0.08) | (0.14) | (0.09) |
| Party-based autocracy | | baseline | | |
| Military autocracy | | 1.604 | | |
| | | (1.71) | | |
| Personalist autocracy | | –3.548* | | |
| | | (1.93) | | |
| Lagged FDI inflows | | | 0.423 | |
| | | | (0.35) | |
| Freedom House/Polity IV | | | | 0.620 |
| | | | | (0.45) |
| Constant | 0.894 | 2.549* | 1.146 | –0.985 |
| | (2.19) | (1.49) | (1.67) | (1.93) |
| # of observations | 585 | 585 | 585 | 585 |
| # of autocracies | 63 | 63 | 63 | 63 |
| Log likelihood | –109.70 | –107.47 | –107.64 | –106.81 |
| AIC | 261.39 | 260.95 | 259.28 | 257.62 |
| Prob > Chi2 | 0.000 | 0.000 | 0.000 | 0.000 |
| Year fixed effects | Y | Y | Y | Y |

Probit regressions with country-level random effects.
Country-clustered standard errors in parentheses.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

Table 3.3: Societal Groups and Sectoral Entry Restrictions

| | Sectoral Entry Restrictions | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Middle class power | –4.709** | –5.232** | –4.584** | –3.512* |
| | (2.13) | (2.17) | (2.21) | (2.00) |
| Regime elite power | 0.715* | 0.506* | 1.492** | –2.233 |
| | (0.39) | (0.30) | (0.69) | (3.00) |
| Population size | 24.413** | 23.829** | 22.742* | 25.007** |
| | (11.61) | (11.51) | (12.49) | (11.86) |
| Economic development | –1.313 | –1.334 | –1.245 | –1.465 |
| | (1.02) | (0.99) | (1.12) | (1.08) |
| Economic growth | 0.005 | –0.000 | 0.008 | 0.009 |
| | (0.01) | (0.01) | (0.01) | (0.01) |
| Trade openness | –0.022** | –0.023*** | –0.022** | –0.023** |
| | (0.01) | (0.01) | (0.01) | (0.01) |
| Government consumption | 0.001 | 0.001 | 0.001 | 0.000 |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Oil production | –0.004 | –0.002 | –0.005 | –0.005 |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Party-based autocracy | | baseline | | |
| Military autocracy | | –1.097* | | |
| | | (0.66) | | |
| Personalist autocracy | | –0.701 | | |
| | | (0.87) | | |
| Lagged FDI inflows | | | –0.177** | |
| | | | (0.08) | |
| Freedom House/Polity IV | | | | –0.121 |
| | | | | (0.09) |
| Constant | 2.430* | 2.894** | –0.113 | 1.144 |
| | (1.24) | (1.24) | (0.57) | (0.71) |
| # of observations | 910 | 910 | 871 | 847 |
| # of autocracies | 59 | 59 | 59 | 59 |
| Log likelihood | –188.74 | –186.16 | –178.52 | –171.04 |
| AIC | 493.48 | 490.33 | 471.04 | 460.07 |
| Prob > Chi2 | 0.000 | 0.000 | 0.000 | 0.000 |
| Year fixed effects | Y | Y | Y | Y |

Fractional probit regressions with country-level fixed effects.
Country-clustered standard errors in parentheses.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

As for the control variables, the results do not reveal a clear-cut pattern. In case of overall investment restrictions, none of the control variables is statistically significant. In case of sectoral entry restriction, however, some patterns emerge. A smaller population and higher trade openness are conducive to FDI liberalization. Furthermore, already receiving foreign direct investment seems to set incentives to liberalize the economy further. More importantly, I do not find consistent effects of the autocratic regime types. Whereas personalist autocracies have the lowest overall investment restrictions, sectoral barriers are lowest in military regimes. Even more, the impact of societal groups on autocratic regimes' choice to open up to FDI seems to be even greater when controlling for broad institutional characteristics of autocratic rule. In extended model specifications, I also interact the regime type with both middle class and regime elite power. This approach allows to differentiate the effects of societal groups in different institutional settings. As expected, there are no statistically significant differences. These findings reinforce the notion that regime typologies do not necessarily capture autocratic diversity in a meaningful way, but that the political power of societal groups explains autocratic decision-making better.

In a next step, I examine whether societal groups not only have the ability to shape the domestic policy environment of FDI openness, but whether they can additionally influence the attractiveness of autocracies for international investors. Table 3.4 thus shifts the attention to actual FDI inflows as the dependent variable. Here, I expect middle class power as well as regime elite power to exhibit an investment-attracting effect, which should be considerably weaker in case of the latter. To make the comparison of the coefficients possible, I use the normalized measures of societal group power in this analysis. I present three models. Model 1 uses the standard set of controls. Model 2 additionally controls for the type of autocratic regime. Model 3 further includes a continuous democracy measure, which has been the most prominent explanation for FDI openness (Li, Owen, and Mitchell, 2018). As opposed to the analysis of the domestic regulatory regime, all models include lagged FDI inflows. This analysis covers a maximum of 2103 country-years, nested in 93 autocracies over the period from 1970 to 2010.

Table 3.4: Societal Groups and Actual FDI Openness

| | Logged FDI Inflows (in % of GDP) | | |
|---|---|---|---|
| | (1) | (2) | (3) |
| Middle class power | 0.284*** | 0.293*** | 0.327*** |
| | (0.09) | (0.09) | (0.10) |
| Regime elite power | 0.111*** | 0.113*** | 0.116*** |
| | (0.04) | (0.04) | (0.04) |
| Population size | 6.009*** | 6.215*** | 5.926*** |
| | (1.50) | (1.54) | (1.51) |
| Economic development | –0.252*** | –0.255*** | –0.250*** |
| | (0.05) | (0.05) | (0.05) |
| Economic growth | –0.000 | –0.000 | –0.001 |
| | (0.00) | (0.00) | (0.00) |
| Trade openness | –0.001 | –0.001 | –0.001 |
| | (0.00) | (0.00) | (0.00) |
| Government consumption | –1.094** | –1.046* | –1.055*** |
| | (0.52) | (0.53) | (0.36) |
| Oil production | 2.249** | 2.214** | 2.299** |
| | (0.89) | (0.96) | (0.94) |
| Lagged FDI inflows | 0.456*** | 0.455*** | 0.469*** |
| | (0.04) | (0.04) | (0.04) |
| Party-based autocracy | | baseline | |
| Military autocracy | | –0.031 | |
| | | (0.08) | |
| Personalist autocracy | | 0.089 | |
| | | (0.09) | |
| Freedom House/Polity IV | | | –0.017 |
| | | | (0.02) |
| Constant | 0.126 | 0.095 | 0.270** |
| | (0.18) | (0.17) | (0.13) |
| # of observations | 2103 | 2103 | 1949 |
| # of autocracies | 93 | 93 | 93 |
| R-squared (within) | 0.35 | 0.35 | 0.36 |
| Prob > F | 0.000 | 0.000 | 0.000 |
| Year fixed effects | Y | Y | Y |

OLS regressions with country-level fixed effects.
Country-clustered standard errors in parentheses.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

Across all models, FDI inflows increase in political power of the middle class and the regime elite. As expected, the effect of middle class power is substantially larger; almost three times as large compared to the effect of regime elite power. These effects are in line with Hypothesis H3.2. I interpret this as a sign that societal checks on the dictators power give rise to international investors' confidence in greater policy stability. Given that autocracies, where the influence of the regime elite is high, have a much tighter grip on multinational corporations, regime elite power cannot unfold the same attractiveness for foreign direct investment as middle class power, however.

As for the control variables, a bigger domestic market, lower economic development, less government expenditures, and the production of oil increase FDI inflows. Moreover, international investment is path dependent, as exemplified by the positive and statistically significant effect of lagged FDI inflows. Again, the type of autocratic regime does not seem to make a difference. In line with previous studies, the democratic quality of political institutions similarly does not affect FDI, despite the fact that this variable is to some extent correlated with middle class power.

Taken together, these results strongly support my argument about the influence of societal demands on FDI liberalization in autocracies. The middle class prefers openness and is able to translate their demands into policies the higher their political power is. To the contrary, regime elites favor fine-tuning or even banning FDI. Again, dictators are more responsive to such demands the more their political survival depends on the regime elite. The fact that power of either group is conducive to attracting investment from multinational corporations, gives rise to the notion that international investors perceive strong societal checks on autocratic rule as an insurance device.

## 3.6 Implications for Autocratic Regime Survival

What implications do these findings have for the argument of this dissertation? This chapter provides two crucial insights to understand why foreign direct investment increases the probability of autocratic regime survival. First, I show that autocratic support coalitions include different groups of actors. Autocratic

support coalitions vary with regard to the influence the regime elite and the middle class have on autocratic politics. These societal groups matter for autocratic decision-making, especially when the interests of the regime elite and the middle class are not in accord. Under such circumstances, broad institutionalist measures of autocratic rule, which do not rest on a two-dimensional understanding of autocratic politics, are not capable to add to our knowledge.

Second, I show that this distinction matters for the way autocracies regulate FDI openness. Openness to FDI is hardly a structural factor that is imposed on autocratic regimes. Autocratic regimes consciously and strategically choose the level and form of FDI openness. Regime elites demand fine-tuning or even restricting international investment. The middle class prefers greater openness for multinational corporations. Depending on their political power, these groups are able to get what they want. An influential middle class is conducive to large-scale FDI liberalization, strong regime elites pressure dictators into entry restrictions on foreign capital. The level and form of opening up to FDI, thus, adds another tool to autocratic regimes' survival kit.

Apart from adding to our understanding of autocratic power maintenance, the results have wider implications for the literature on autocratic diversity. First, party-based autocracies are oftentimes assumed to encompass the broadest ruling coalition (e.g., Knutsen and Fjelde, 2012). Yet, the descriptive analysis in this chapter shows that this is not the case. On average, party-based regimes do not necessarily rely on the middle class for support. Second, previous research argues that strong parties facilitate international investment (e.g., Gehlbach and Keefer, 2011). While this might be true if liberalization has already taken place, my analysis shows that regime elites operating through powerful regime parties are not conducive to a lax regulatory investment environment for multinational corporations in the first place. Third, the political power of different societal groups varies widely within, but less so across autocratic regime types, casting doubt on how useful these categories are in explaining economic and political outcomes in autocratic regimes in general.

## Appendix

Table 3.5: Descriptive Statistics (Analysis of FDI Openness)

| | N | Mean | SD | Min | Max |
|---|---|---|---|---|---|
| Overall restrictions | 617 | 0.69 | 0.46 | 0.00 | 1.00 |
| Sectoral entry restrictions | 885 | 0.24 | 0.40 | 0.00 | 1.00 |
| FDI inflows (in % GDP, ln) | 2249 | 0.96 | 1.06 | –3.48 | 5.15 |
| Regime elite power | 2249 | 0.55 | 0.14 | 0.20 | 0.83 |
| Middle class power | 2249 | 0.53 | 0.14 | 0.16 | 0.88 |
| Population size (in billion) | 2202 | 0.04 | 0.14 | 0.00 | 1.33 |
| GDP per capita (in trillion) | 2168 | 0.20 | 0.74 | 0.00 | 12.78 |
| Real GDP growth (in%) | 2249 | 4.14 | 6.71 | –64.05 | 57.82 |
| Trade openness (in % GDP) | 2189 | 66.66 | 35.88 | 0.10 | 220.41 |
| Government consumption (in million) | 2249 | 15.48 | 79.07 | 0.00 | 728.74 |
| Oil production (in million tons) | 2248 | 22.78 | 66.02 | 0.00 | 496.00 |
| Party-based autocracy | 2249 | 0.44 | 0.50 | 0.00 | 1.00 |
| Military autocracy | 2249 | 0.15 | 0.36 | 0.00 | 1.00 |
| Personalist autocracy | 2249 | 0.41 | 0.49 | 0.00 | 1.00 |
| Polity IV/Freedom House combined | 2137 | 2.89 | 2.03 | 0.00 | 9.08 |

# Chapter 4

# FDI and Citizen Support for Autocratic Rule

Despite the institutional turn in comparative research on authoritarianism (Pepinsky, 2014), scholars ascribe mass attitudes a crucial role in regime trajectories (Mainwaring and Pérez-Liñán, 2014). How does foreign direct investment affect citizen support for autocratic rule? Over the last decades, FDI has been on an astounding rise – in democracies and in autocracies. Technological advances allowed countries to attract international sources of capital. And multinational corporations frequently exploited locational advantages outside their home countries to increase revenues (Jensen, 2006; UNCTAD, 2009). Simultaneously, autocracies have progressively granted multinational corporations access. As such, foreign investment had and continues to have a tremendous potential to restructure the domestic economy of host countries. Given that it differs from other forms of economic globalization through its long-term nature, reallocation should even be stronger than in the case of international trade (Feenstra and Hanson, 1997; Pandya, 2014*b*).

## 4.1 Mass Attitudes in the Literature

In line with the growing importance of FDI, some studies have examined its political consequences in developed democracies. Scheve and Slaughter

(2004) find that FDI increases feelings of economic insecurity. Going a step further, Walter (2010) shows that economic insecurity induced by foreign investment translates into preferences for redistribution and leads people to support those parties that tend to provide a generous social security net. In contrast, individuals benefiting from FDI turn to parties that aim at deepening international integration. As such, foreign investment shapes democratic politics.[1] As far as autocratic regimes are concerned, however, we know comparatively little about its political consequences.

In addition to the lack of research on FDI's political consequences in autocracies, there is considerable disagreement as to how structural forces – like economic development or international openness – shape people's values as well as to the way such values translate into regime preferences. One strand of research argues that economic performance caused by modernization amplifies citizens' beliefs in the legitimacy of the current rule, which increases the stability of autocracies (Bellin, 2010; Chen and Lu, 2011; Gerschewski, 2013; Haggard and Kaufman, 1995; Treisman, 2011; Wintrobe, 1998). Others, however, contend that modernization strengthens demands for democracy, for instance by enhancing education levels (Lipset, 1959; Sanborn and Thyne, 2014), reinforcing self-expression or emancipatory values (Inglehart and Welzel, 2005; Welzel, 2007), or via demands for income redistribution (Acemoglu and Robinson, 2006; Boix, 2003). Yet, a third group of scholars doubts that modernization has the potential to shape regime preferences, as they argue that people's demands for specific regimes always go hand in hand with the regime they currently live in (Dahlum and Knutsen, 2017; Hadenius and Teorell, 2005; Seligson, 2002).

## 4.2 Observable Implications of the Argument

In order to assess how FDI affects citizen support for autocratic rule, I argue that a convincing answer hinges on the distributional consequences of for-

[1] Similarly, the political consequences of other forms of economic globalization have been studied extensively in democracies. For international trade, see Beaulieu (2002), Hays, Ehrlich, and Peinhardt (2005), Mayda and Rodrik (2005), and Scheve and Slaughter (2001); for job offshorability, see Margalit (2011), Owen (2018), Rommel and Walter (2017), and Walter (2017).

eign direct investment. Although beneficial in the aggregate, citizens do not benefit from FDI exposure across the board. In applying new insights from the trade literature (Helpman, Itshoki, and Redding, 2010; Helpman, 2014; Melitz, 2003) to the study of foreign direct investment, I argue that the distributional implications are even more heterogeneous than previously assumed (Walter, 2017). Whether an individual gains or stands to lose is contingent on both skill-level and actual FDI exposure.[2] Low-skilled individuals face downward pressure on their economic well-being the more they are exposed to foreign investment. To the contrary, highly skilled individuals' wage levels increase when they work for multinational companies. Concerning market income, foreign direct investment thus widens the gap between differently skilled individuals. With regard to economic insecurity, I thus hypothesize:

*H4.1: FDI amplifies economic insecurity and grievances among poorly educated individuals. FDI reduces economic insecurity and grievances for well-educated individuals.*

Furthermore, exposure to FDI translates into regime support through its effect on political demands. I assume that economic self-interest is one of the main drivers of policy preferences (see, e.g., Meltzer and Richard, 1981). Seeing to overcome economic insecurity, low-skilled exposed individuals should be more likely to oppose the current autocratic regime and support democratization in order to mitigate the risks from foreign direct investment. Contrarily, economic gains from FDI increase the perceived output legitimacy of the regime, leading the high-skilled exposed citizens to support the incumbent regime. This line of reasoning suggests the following hypotheses:

*H4.2: As opposed to poorly educated individuals, FDI increases the belief in the legitimacy of autocratic rule among well-educated individuals.*

*H4.3: As opposed to well-educated individuals, FDI heightens the demand for democratization among poorly educated individuals.*

[2] This stands in contrast to the trade models widely used (for example in the theoretical arguments of Acemoglu and Robinson (2006) and Boix (2003)). Factoral or Heckscher-Ohlin models posit that skill-level is the only decisive factor (Heckscher, Flam, and Ohlin, 1991; Stolper and Samuelson, 1941). Sectoral or Ricardo-Viner models arrive at predictions about distributional consequences based on actual exposure (Frieden and Rogowski, 1996; Ricardo, 1817).

In the following sections, I test these hypotheses against two sets of data. The first study uses individual-level survey data from 16 autocratic regimes in 2007. It examines whether differently skilled individuals exposed to foreign investment hold opposing views regarding economic insecurity. Furthermore, it investigates support for the current regime on three dimensions: satisfaction with the government or leader, perceived legitimacy of the functionality of political institutions, and support for autocratic rule as opposed to democracy. The second study complements this analysis utilizing panel survey data from the Russian Federation between 2004 and 2013. It analyzes survey items that directly pertain to perceived and realized economic grievances as well as citizens' trust in state institutions.

## 4.3 Study 1: FDI and Regime Preferences in 16 Autocracies

In the first study, I use individual-level data from a survey administered in 16 autocratic countries by the Pew Global Attitudes Project in 2007.[3] The dataset covers roughly 16000 working-age respondents that have lived under autocratic rule at the time the survey was conducted (see Table 4.1 for descriptive statistics of the variables). Importantly, the country selection offers variation across world regions, types of dictatorship, and the level of economic development, which makes this set of countries particularly useful to show the generalizability of my argument.

### 4.3.1 Research Strategy

**Dependent Variables** I use information on several dependent variables to examine the pathway from foreign direct investment exposure to citizen support for autocratic rule. Initially, I investigate perceived feelings of economic insecurity. I measure this variable with an open-ended question that asks respondents: "What do you think is the most important problem facing you

[3] The survey was conducted in the following autocracies: Bangladesh, China, Egypt, Ethiopia, Ivory Coast, Jordan, Kuwait, Lebanon, Malaysia, Morocco, Nigeria, Pakistan, Russia, Tanzania, Uganda, and Venezuela.

and your family today?" Respondents' answers were grouped into 47 different categories.[4] As the distributional consequences of foreign investment directly affect wage development and unemployment, I code respondents to show realized feelings of economic insecurity, if they mention 'low wages' or 'unemployment' as the biggest or second biggest problem. Roughly one third of respondents have experienced changes in personal well-being that lead to economic insecurity.

In a second step, I examine individual regime support using three different variables. The first question is closely related to satisfaction with the autocratic government: "Please tell me what kind of influence our national government is having on the way things are going in [country]. Is the influence very good, somewhat good, somewhat bad, or very bad?" Higher values indicate dissatisfaction. Roughly one third of the respondents indicate dissatisfaction with the autocratic government.

Next, I measure citizens' legitimacy beliefs in the incumbent regime with two questions that display whether respondents feel if the functionality of political institutions is congruent with their needs. The first question refers to the de facto situation: "Does the following statement describe our country very well, somewhat well, not too well or not well at all? Honest elections are held regularly with a choice of at least two political parties." The second question captures respondents' ideal situation: "How important is it to you to live in a country where honest elections are held regularly with a choice of at least two political parties? Is it very important, somewhat important, not too important or not important at all?" The distance between the answers to the former and the latter question gives a measure of congruence. A distance of zero implies that the amount of political participation is exactly in line with the importance the respective individual places on it.[5] Conversely, a distance of three represents large-scale incongruence and corresponds to lower levels of legitimacy belief. I repeat this exercise for freedom of expression, where both

[4] The broad categories include economic/financial problems, health, education and children, housing, social relations, work, transportation, crime, government, and terrorism and war.

[5] About 10% of the respondents say that the de facto situation is actually better than their ideal situation. I recoded these to the value of 0, which implies congruence. The results are robust to using the original scale.

questions refer to the statement: "You can openly say what you think and can criticize the government." Hence, legitimacy belief refers to perceived incongruence on two dimensions: political participation and freedom of expression. For both variables, higher values indicate stark incongruence.

Lastly, I operationalize preferences for democratization as one alternative type of regime with the following question: "Some feel that we should rely on a democratic form of government to solve our country's problems. Others feel that we should rely on a leader with a strong hand. Which comes closer to your opinion?" Although this question does not directly ask about autocratic rule, it captures the trade-off between strong leadership and democratization. That is, people have to carefully weigh alternative regime types when answering this question. Importantly, respondents were also given the opportunity not to answer, as this might be a highly sensitive question to some respondents. Nevertheless, the response rate is roughly 90%. About 40% would rather rely on a strong leader, whereas 60% prefer democratization. The variable is coded, such that higher values correspond to the rejection of the incumbent autocratic regime. To check the robustness, I use another question that asks: "If you had to choose between a good democracy or a strong economy, which would you say is more important?" I code a respondent as a strong proponent of democracy if he or she supports democratization as opposed to strong leadership as well as opposed to a strong economy.

**Independent Variables** My argument implies that the effect of foreign direct investment exposure on feelings of economic insecurity and citizen support for autocratic rule differs between poorly and highly skilled individuals. As such, a valid test requires three independent variables on the individual level: exposure to foreign investment, skill-level, and an interaction term.

Individuals differ with regard to the degree to which they are exposed to foreign investment. To capture this variation, I rely on regional differences in survey recruitment and match this information with data on greenfield investments. Such investment covers new projects planned by multinational companies from the ground up.[6] The data is provided by `fdimarkets.com`,

[6] As such, it differs from overall FDI exposure, which also includes investments in existing firms and joint ventures. Unfortunately, such data is not available on a regional basis. Yet,

a subsidiary of the Financial Times Ltd., which gathers information on the amount of invested capital and the expected number of jobs created, broken down by regions. As investment projects usually need some time to unfold their consequences, I calculate the sum of investments over a five year period (from 2003 to 2007) in each region and match this with the corresponding region respondents live in. Regions for which `fdimarkets.com` provides no information are coded as non-exposed. This operationalization makes two assumptions. First, distributional consequences increase monotonically in foreign investment. This assumption is generally reasonable. In light of diminishing marginal returns, I however use the logarithm of the amount of invested capital as a robustness check. Second, labor is mobile within but not across regions, which also implies that labor mobility is lower along regional than sectoral or occupational lines. Given that administrative regions are rather large, the bias arising from within-autocracy migration patterns should be small.

Individuals further differ according to the amount of occupational skills. I measure individual skill-level using respondents' educational background. Of course, individuals can also dispose of skills acquired through on-the-job-training and individuals with low levels of education can also deliver high-quality work, but empirical research has shown that educational achievement is positively related to higher occupational skills and higher levels of productivity (Jones, 2001; Spitz-Oener, 2006). Education therefore serves as a proxy for individual skill-level. In terms of operationalization, I use information on the highest level of education a respondent has received. The codings, however, differ between countries, which is why I standardize them into six categories following the International Standard Classification of Education (ISCED): no formal education/illiterate, incomplete primary education, primary education completed, lower secondary education completed, higher secondary education completed, and tertiary education completed.

To capture the expected conditional effect of exposure to FDI and individual skill-level, I use an interaction term (Ai and Norton, 2003; Brambor, Clark, and Golder, 2006). My argument makes clear predictions about the

restricting the data to greenfield investment should generally bias against finding empirical support for my argument.

nature of this interaction term. Since FDI induces downward pressure on low-skilled individuals' economic well-beings, they should be more likely to express feelings of economic insecurity and more reserved about autocratic rule. To the contrary, high-skilled individuals face increasing returns the more they are exposed to foreign direct investment. The dependent variables are coded such that I expect a negative interaction term in all models.

**Model Specification** The dichotomous or ordinal nature of the dependent variables necessitates the use of probit and ordered probit regression models, respectively. Despite the limited number of countries, I use a random effects multilevel model where respondents are clustered within countries. The regression models thus account for the fact that respondents living in the same country share a common context and are not necessarily independent from each other (Steenbergen and Jones, 2002). The results are robust to using probit and ordered probit regression models with country fixed effects.

I include a number of other variables that control for alternative explanations. The baseline models only include gender, age in years, and income. Income is measured by a self-classification into income classes. Unfortunately, countries differ to some extent with respect to the number of income classes provided in the questionnaire. To facilitate cross-national comparability, I recode this variable so that it represents the deviation of the respondent's income-class from the country-specific median income-class. For reasons of limited data availability, I include further control variables in separate models. Here, I additionally control for marital status, the number of children, whether the respondent has friends or relatives outside the country, regularly consults international news outlets, and lives in an urban area. The number of children is a simple count variable. Because of the highly skewed distribution (few people have more than five children), I restrict the number of children to five. The remaining variables are coded as dummies.

### 4.3.2 Empirical Evidence

Does foreign investment alter citizens' attitudes towards autocratic rule? The findings indicate that citizens living under autocratic rule take their mate-

rial situation into account when evaluating the legitimacy of the regime. As predicted by the argument, the effect of foreign direct investment is highly dependent on individual skill-level. Exposure to FDI increases demands for democratization for low-skilled individuals. To the contrary, the highly skilled are all the more satisfied with autocratic rule and have more trust in the functionality of the political political institutions the more they are exposed to FDI.

**Economic Insecurity** The first set of models (reported in Table 4.2 in the Appendix) estimate the probability that a person expresses feelings of economic insecurity, i.e. that respondents identify either low wages or unemployment as a major problem, which is the main variable in the causal pathway of my argument. Exposure to foreign direct investment has a consistently positive and statistically significant effect. Higher exposure to international markets leads to severe economic grievances in the form of decreasing wages or unemployment. Given the interaction term, this effect is however limited to respondents that have no formal or less than primary education. Most importantly, the interaction term is, as expected, negative and statistically significant. Hence, the effect of foreign investment exposure decreases in education levels.

Figure 4.1 illustrates the marginal effect of foreign direct investment over different skill-levels. Exposing individuals with no formal or less than primary education to foreign investment increases their likelihood to feel economically insecure. On the other hand, exposing highly skilled people, i.e. individuals with higher secondary or tertiary education, to foreign investment in fact lowers the probability that these people report problems regarding low wages and unemployment. Interestingly, there is no difference between individuals holding different educational degrees when FDI exposure is zero; the effect of education levels is statistically insignificant. Education levels matter only in the presence of exposure to foreign investment.

These results are robust to the inclusion of more control variables. Because they are perfectly in line with my theoretical argument about the heterogeneous effects of FDI openness on material welfare of individuals, they lend credence to Hypothesis 4.1. Even more, they cast serious doubt on theoretical models that identify winners and losers from economic globalization purely based on production factors (Heckscher-Ohlin trade models) or sectoral

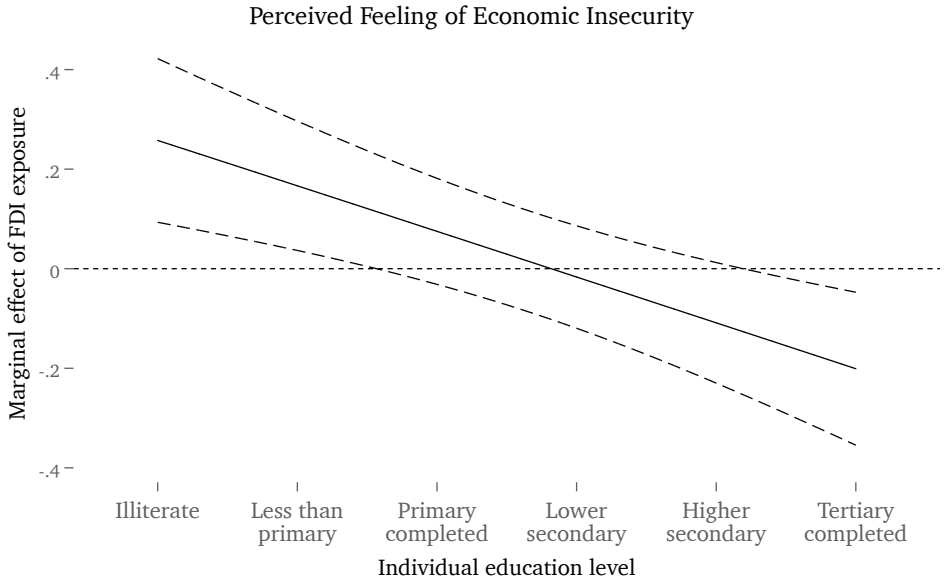



Figure 4.1: Study 1 – FDI Exposure and Economic Insecurity

exposure (Ricardo-Viner trade models).

**Government Satisfaction** In a next step, I analyze whether FDI-induced distributional consequences translate into differences in regime support. I distinguish between three conceptually different dependent variables: satisfaction with the autocratic government, perceived legitimacy of the functionality of political institutions, and support for democratization as opposed to autocratic governance. For each variable, I provide a narrow and an extended model specification.

Regarding government satisfaction, I expect that the beneficiaries of FDI are significantly less likely to report that the influence of the government is bad compared to losers of FDI openness. The results reported in Table 4.2 support this claim. The interaction term between skill-level and FDI exposure is consistently negative and statistically significant. Interestingly, there is variation between skill groups. Whereas foreign investment does not influence the probability of dissatisfaction with the government if respondents possess less than primary education, it significantly decreases dissatisfaction for people holding higher educational degrees (see Figure 4.2).

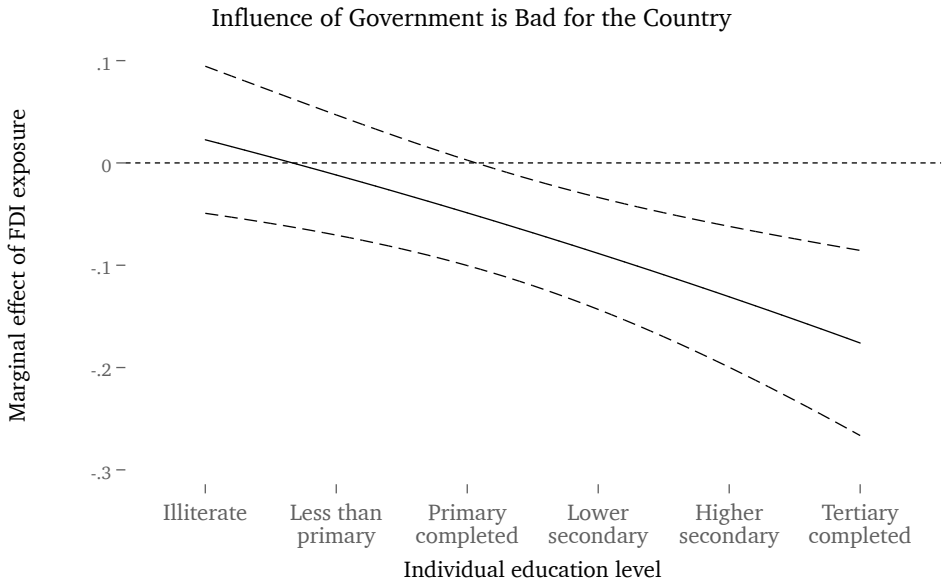



Figure 4.2: Study 1 – FDI Exposure and Government Dissatisfaction

**Perceived Legitimacy** Furthermore, I examine whether citizens that are exposed to foreign direct investment are more or less likely to report that the functionality of key political institutions is incongruent with their own view, depending on their skill-level. As such, this proxies for the perceived legitimacy of the institutional setup of the authoritarian regime. The results on two dimensions of institutional support – political participation and freedom of speech – are reported in Table 4.3.

With regard to political participation, Figure 4.3 shows a negative and statistically significant interaction effect between FDI exposure and skill-level. This exemplifies that poorly educated individuals are more likely to report incongruence the more they are exposed to FDI. Although they perceive political participation as an important vehicle to overcome their dire economic situation, the losers from foreign direct investment say that electoral participation is essentially meaningless. Thus, FDI reduces the perceived legitimacy of autocratic rule for poorly educated citizens. In contrast, FDI does not change perceptions of the legitimacy of political institutions among those individuals that have received at least lower secondary education. In essence, the benefi-

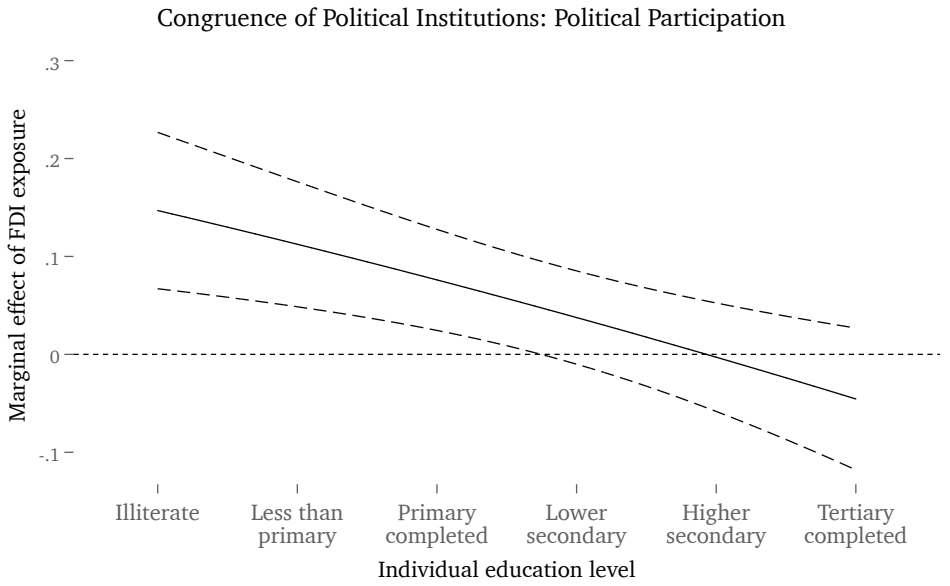



Figure 4.3: Study 1 – FDI Exposure and Institutional Support

ciaries are, thus, more satisfied with the institutional setup of the regime.

The same holds with regard to civil liberties, as is shown in Table 4.3. Here too, the interaction term is negative and statistically significant, which points to the moderating effect of skill-level when people are exposed to international competition. Once more, foreign direct investment decreases people's legitimacy belief only if they are comparatively not well-educated.

**Autocratic Rule** In a final step, I investigate how foreign direct investment shapes citizen support for democratization or autocratic rule, respectively. Table 4.4 reports models that investigate the determinants, which lead people to support democratic forms of government at the expense of strong leadership (models 1 and 2), and additionally at the expense of a strong economy (models 3 and 4). The results suggest that exposure to FDI strengthens calls for democratization if individuals are comparatively low skilled. As expected, the interaction term is negative and statistically significant.

Figure 4.4 illustrates the weakening effect of FDI exposure across different skill-levels. The main result is that FDI exposure is not statistically significant anymore as soon as individuals have received more than lower secondary

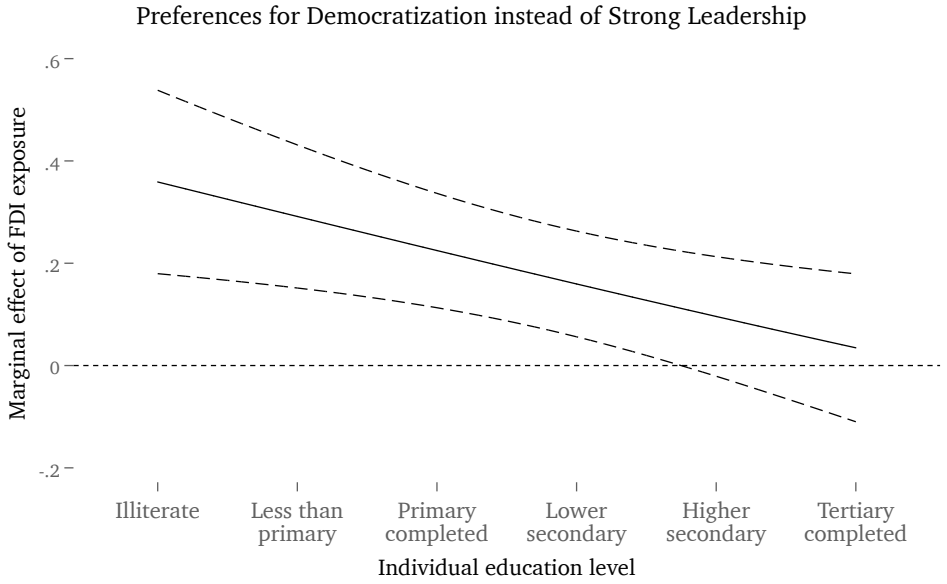



Figure 4.4: Study 1 – FDI Exposure and Democratization

education. This is consistent with my theoretical argument. High-skilled individuals benefit from economic openness in material terms. Preferences for continued economic gains thus tend to outweigh demands for democratic participation. However, this does not mean that high-skilled citizens strongly prefer an authoritarian leader, but rather speaks to a status quo bias.

Summing up, across a sample of 16 autocratic regimes, foreign direct investment increases citizens' satisfaction with autocratic rule, but only if they are comparatively well-educated. This is due to the fact that the highly skilled can sell their skills in markets characterized by soaring FDI inflows. To the contrary, especially the poorly educated part of the population faces adverse effects of foreign direct investment. They directly blame the existing political institutions, which amplifies calls for democracy.

## 4.4 Study 2: FDI and Regime Preferences in Russia

Whereas the previous analysis leverages data from 16 autocratic regimes, this section complements these findings with longitudinal survey data from

the Russian Federation (see, for a similar application to study the effects of trade, Palmtag, Rommel, and Walter, 2018). Since 1994, the Higher School of Economics administered a nationally representative panel survey, the Russian Longitudinal Monitoring Survey. It covers respondents from 33 Russian regions. Focusing on the working-age population, the following analysis includes a maximum number of 22500 respondents between 2004 and 2013 (see Table 4.5 for descriptive statistics of the variables).[7] Unfortunately, the dataset covers only very few 'political' questions and covers mostly work and health related issues. Therefore, the analysis focuses more on the direct economic consequences of FDI.

### 4.4.1 Research Strategy

**Dependent Variables** I concentrate on three dependent variables that measure subjective and objective economic grievances. First, the adverse consequences of foreign direct investment should induce involuntary unemployment, which directly relates to realized economic risk by inducing losses in market income. I operationalize this variable by combining two questions: whether the respondent is currently unemployed and whether the respondent wants to find work. Second, I use a question asking respondents whether they are worried about not being able to afford necessary goods. This item directly measures economic grievances in the form of threats to respondents' livelihoods. The answers on a 5-point scale range from 'not concerned at all' to 'very concerned.' Third, I measure perceived overall economic insecurity by utilizing a question that asks respondents to evaluate the overall state of the economy. This question allows to examine whether FDI-related personal risks translate into more pessimistic sociotropic perceptions of the economy. Answers range from 'fully satisfied' on the positive pole to 'not at all satisfied' on the negative pole. All variables are coded such that higher values indicate higher economic risk.

In addition to this set of dependent variables, which allows investigat-

[7] Unfortunately, this dataset suffers from a high degree of attrition. The average observation time is 3.5 years; some respondents have been interviewed over 10 years and others only in 2004. Therefore, the maximum number of observations is only about 80000. The restriction to the 2004-2013 period is due to data availability regarding FDI exposure.

ing the direct material consequences of foreign direct investment, I investigate three variables that speak to the social consequences of FDI: First, I operationalize perceived social status with the help of survey items that encourage respondents to rank themselves on fictional 9-step ladders. Two questions refer to respondents' positions in society with respect to economic as well as power considerations. To come up with the final measure, I take the average of both variables and reverse the scale, such that higher values indicate a lower perceived social status. Second, I measure distrust in private business on a 5-point scale ranging from 'completely trust' to 'completely distrust.' Although, this survey item does not directly refer to attitudes regarding multinational corporations, I assume that people most likely think about large companies when hearing this question. In that sense, this question measures attitudes towards the most productive firms in the economy, whether they are foreign multinationals or thriving domestic firms due to foreign direct investment. Lastly, I operationalize distrust in state institutions by combining two questions asking about trust in government and trust in the legislature, i.e. the State Duma. Distrust in these institutions speaks to a perception of unresponsiveness in terms of policy on the one hand, and to less satisfaction with the functionality of the primary state institutions on the other hand. The variable is coded 1 if respondents rather or completely distrust both the executive and the legislative branch of government; and 0 otherwise. Unfortunately, the latter two variables were only included in the survey in 2006 and 2012.

**Independent Variables** To measure individual FDI exposure, I match the yearly data on regional FDI inflows of both brownfield and greenfield investment to the region the respective respondent lives in. As such, FDI exposure in this part of the analysis covers realized FDI inflows, as opposed to greenfield investment announcements. The data is provided by ICSID (2015) for the years 2004 to 2013. In addition, I operationalize individual education levels by using respondents' highest educational degrees. This variable has six categories: less than primary, completed primary, lower secondary, higher secondary, secondary vocational, and completed tertiary education.

My argument about the heterogeneous effects of economic globalization implies that exposure to FDI drives a wedge between educational groups.

Individuals with lower levels of education should be more likely to feel economically aggrieved when they are exposed to FDI relative to individuals with similarly low education levels who live in less economically open regions. In contrast, living in regions that are open to FDI should decrease economic grievances among highly educated individuals. This implies an interaction term between individual education-level and regional globalization exposure. All dependent variables are coded such that I expect a negative interaction.

**Model Specification** I analyze this data with the help of random effects multilevel regression models, in which I nest individual survey years (level 1) in individuals (level 2). I use a probit specification for involuntary unemployment and distrust in state institutions, an ordered probit specification for concern about getting necessities, economic dissatisfaction and distrust in private business as well as a linear specification for perceived social status.

To account for other factors that potentially influence individual economic risk, I control for gender, age, income, marital status, whether the respondent has a second job, is self-employed, or works in the public sector. Furthermore, I account for the place where respondents currently live: regional center (baseline category), city, small town, or village. Income is measured as the logarithm of the actual household income. Age is measured in years. All other variables are dummy variables. Each regression model also includes year fixed effects to account for common shifts in attitudes.

### 4.4.2 Empirical Evidence

Tables 4.6 and 4.7 in the Appendix present the results from these regression models. They support the findings from the multi-country survey analysis in the previous section. That is, low-skilled individuals face more economic risk the more they are exposed to FDI. Under the same circumstances, high-skilled individuals fare significantly better in material terms. More importantly, they tend to trust more in state institutions.

**Economic Risk** With regard to involuntary unemployment, the effect of exposure to FDI is positive and statistically significant for respondents that have no formal or have only completed primary education (see model 1 in Table

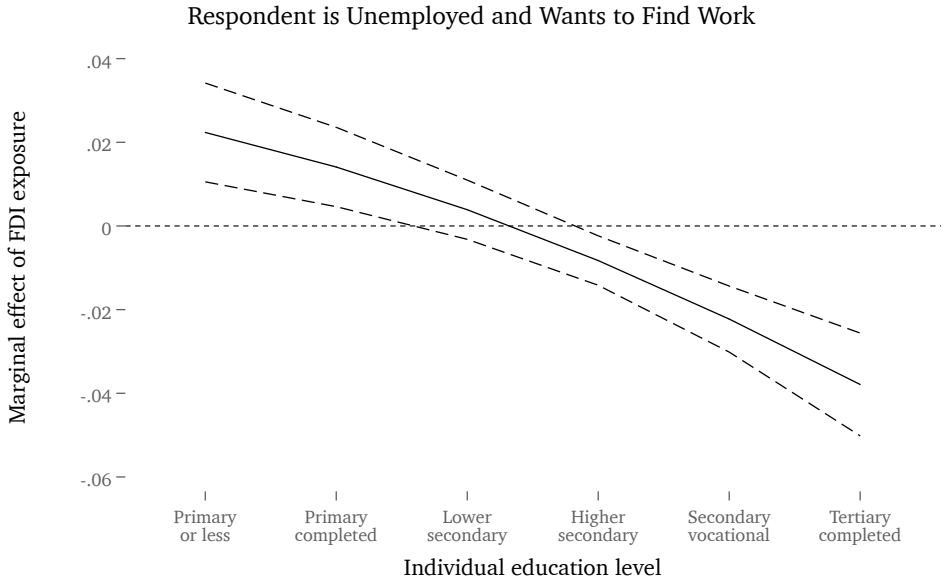



Figure 4.5: Study 2 – FDI Exposure and Involuntary Unemployment

4.6). This means that FDI increases the probability of involuntary unemployment among poorly educated citizens. As Figure 4.5 shows, the effect of FDI reverses as people receive a better education, however. The interaction term between FDI exposure and education level is negative and statistically significant. As a consequence, FDI exposure decreases the probability that an individual is involuntarily unemployed among those citizens with at least higher secondary education. For these individuals, FDI openness in beneficial.[8]

The results show the same picture with regard to whether people are concerned with being able to afford necessary goods (see model 2 in Table 4.6). Thus, immediate threats to individuals' livelihoods and economic grievances increase among the poorly educated, but decrease among the highly skilled if they are exposed to FDI (see Figure 4.6). The distributional consequences of FDI are not confined to egocentric attitudes alone, but also affect sociotropic attitudes with regard to satisfaction with the overall state of the economy (see model 3 in Table 4.6). The beneficiaries of economic globalization tend to be much more satisfied with the overall economic situation. Once

[8] Palmtag, Rommel, and Walter (2018) find the same effect for international trade.

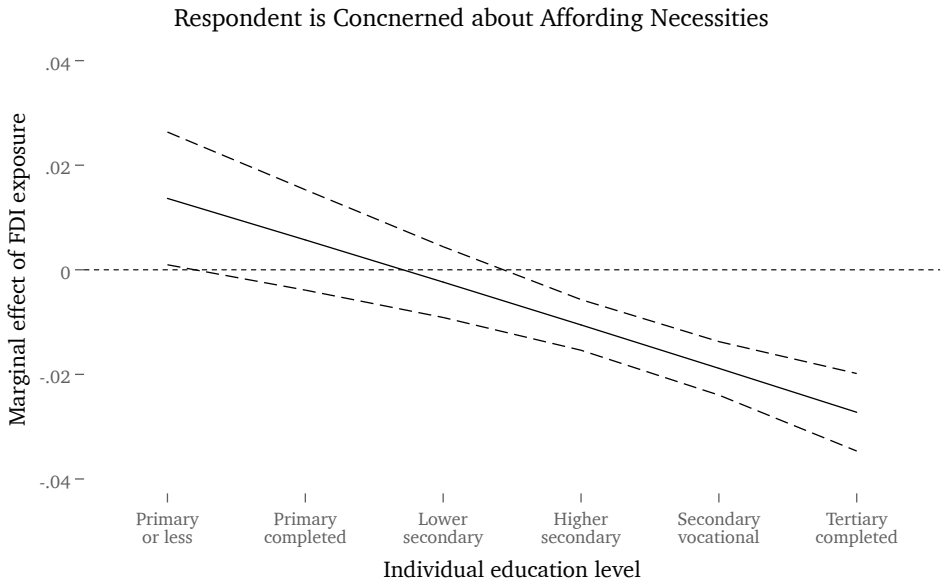



Figure 4.6: Study 2 – FDI Exposure and Concern about Livelihood

again, these findings strongly support my argument about the heterogeneous distributional effects of international economic openness.

**Status and Regime Evaluation** In addition, the distributional effects of FDI do not affect individual economic risk alone. As the results in Table 4.7 suggest, they also travel into individuals' perceived status in society as well as trust in business and state institutions.

If poorly educated citizens are exposed to FDI, they not only report a significantly lower social status, they also distrust private business (see models 1 and 2 in Table 4.7). I argue that this perception is due to direct negative experiences. Poorly educated individuals have a higher probability of getting laid-off or face downward pressure on their wages. The negative and statistically significant interaction terms reveal that the beneficiaries of FDI are different in this regard. They perceive themselves as holding an improved position in society, both with regard to economic and power considerations, and have more trust in private business.

Even more importantly, high-skilled exposed individuals also show a higher trust in state institutions; in this case, the Russian government and

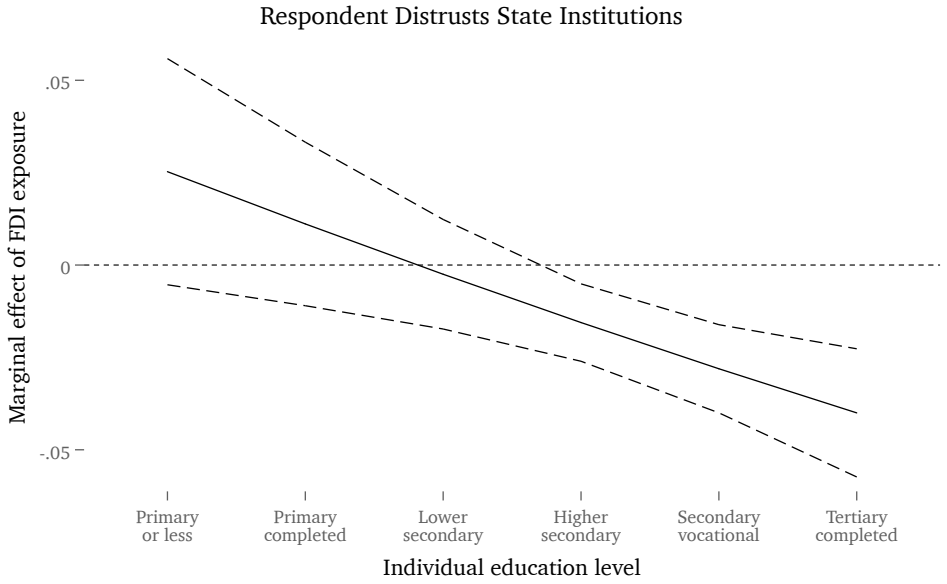



Figure 4.7: Study 2 – FDI Exposure and Trust in State Institutions

its legislative branch, the State Duma (see model 2 in Table 4.7 and Figure 4.7). Arguably, this reduces the propensity of dissatisfaction with the current political situation and increases satisfaction with the policy performance of the government, thus reducing the incentives to act against the incumbent regime. In line with Hypothesis 4.2 and 4.3, the findings from this study second the notion that the middle class beneficiaries of FDI tend to support autocratic rule on material grounds.

## 4.5 Implications for Autocratic Regime Survival

With regard to the question how FDI affects autocratic regime survival, my findings yield two important conclusions: First, in international political economy scholars disagree about the distributional consequences of economic globalization. My results show the applicability of new new trade theory in authoritarian regimes when it comes to FDI's material consequences. Individual economic welfare varies according to both skill-level and actual FDI exposure, which is in line with the results of studies that apply new new trade

theory in democracies (Walter, 2010, 2017). Foreign direct investment increases economic welfare and consequently the probability of regime support for high-skilled individuals. To the contrary, exposure to foreign direct investment leads to heightened economic grievances and, thus, preferences for democratization if respondents are poorly educated.

This has serious repercussions on a second debate in comparative politics, especially concerning arguments that put the political demands of societal groups at the center of attention to explain regime trajectories. These arguments usually hypothesize that exposure to FDI increases the chances for democratization, because individual demand for democracy increases in market income. My results, however, challenge this view and call for a re-evaluation of the conclusions of redistributivist models of regime change (Acemoglu and Robinson, 2006; Boix, 2003). Inequality between skill-groups does not decrease (as proposed by the factor-proportions theorem), but rather increase (as proposed by new-new trade theory). In addition, increasing market income from foreign direct investment hardly raises the demand for democratic participation, as is put forth by neo-modernization theory (Inglehart and Welzel, 2005; Welzel, 2007). To the contrary, it appeases large parts of the population by increasing satisfaction with the current regime. In light of these results, the conclusion drawn from redistributivist models of regime change should rather be: FDI leads to political complacence among the middle class and thus contributes to the stabilization of autocratic rule.

# Appendix

Table 4.1: Descriptive Statistics (Analysis of Regime Support)

| | N | Mean | SD | Min | Max |
|---|---|---|---|---|---|
| Economic insecurity | 16723 | 0.36 | 0.48 | 0.00 | 1.00 |
| Government satisfaction | 16003 | 2.16 | 0.92 | 1.00 | 4.00 |
| Legitimacy: freedom of speech | 12959 | 0.88 | 1.00 | 0.00 | 3.00 |
| Legitimacy: political participation | 12875 | 0.98 | 1.07 | 0.00 | 3.00 |
| Preferences against autocracy | 14941 | 0.61 | 0.49 | 0.00 | 1.00 |
| Preferences for democracy | 15158 | 0.75 | 0.43 | 0.00 | 1.00 |
| Female | 16899 | 0.50 | 0.50 | 0.00 | 1.00 |
| Agen (in years) | 16795 | 36.68 | 13.30 | 18.00 | 97.00 |
| Income | 15267 | 0.52 | 2.35 | –5.00 | 11.00 |
| Married | 16817 | 0.65 | 0.48 | 0.00 | 1.00 |
| # of children | 16572 | 1.91 | 1.67 | 0.00 | 5.00 |
| Foreign relatives | 16816 | 0.30 | 0.46 | 0.00 | 1.00 |
| International news | 15737 | 0.52 | 0.50 | 0.00 | 1.00 |
| Urban resident | 16020 | 0.60 | 0.49 | 0.00 | 1.00 |

Table 4.2: Study 1 – Economic Insecurity and Government Dissatisfaction

| | *Dependent variable:* respondent mentions | | | |
|---|---|---|---|---|
| | economic insecurity | | government dissatisfaction | |
| | (1) | (2) | (3) | (4) |
| Education level | 0.015 | 0.004 | 0.041*** | 0.024*** |
| | (0.01) | (0.01) | (0.01) | (0.01) |
| FDI exposure | 0.756*** | 0.791** | 0.157 | 0.077 |
| | (0.29) | (0.31) | (0.25) | (0.27) |
| FDI * education | –0.268*** | –0.285*** | –0.235*** | –0.220*** |
| | (0.09) | (0.09) | (0.07) | (0.08) |
| Female | –0.055** | –0.043* | –0.020 | –0.019 |
| | (0.02) | (0.02) | (0.02) | (0.02) |
| Age | –0.006*** | –0.005*** | –0.002** | –0.002** |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Income | –0.075*** | –0.070*** | 0.009** | 0.008* |
| | (0.01) | (0.01) | (0.00) | (0.00) |
| Married | | –0.086*** | | 0.014 |
| | | (0.03) | | (0.02) |
| # of children | | –0.027*** | | 0.012* |
| | | (0.01) | | (0.01) |
| Foreign relatives | | –0.176*** | | 0.111*** |
| | | (0.03) | | (0.02) |
| International news | | 0.065*** | | 0.041** |
| | | (0.02) | | (0.02) |
| Urban resident | | 0.150*** | | 0.118*** |
| | | (0.03) | | (0.02) |
| Panel-level variance | 0.124*** | 0.108*** | 0.258*** | 0.246*** |
| # respondents | 15022 | 13836 | 14461 | 13383 |
| # of countries | 16 | 16 | 16 | 16 |
| Prob > Chi2 | 0.000*** | 0.000*** | 0.000*** | 0.000*** |
| Log-Likelihood | –9366.97 | –8556.18 | –17106.37 | –15770.76 |
| AIC | 18749.95 | 17138.36 | 34232.74 | 31571.52 |

Multilevel probit regression models; respondents are nested within countries.
Constants and cutoff points not reported. Standard errors in parentheses.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

Table 4.3: Study 1 – Perceived Incongruence of Political Institutions

| | *Dependent variable:* incongruence regarding freedom of speech | | political participation | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Education level | 0.036*** | 0.027*** | 0.018* | 0.010 |
| | (0.01) | (0.01) | (0.01) | (0.01) |
| FDI exposure | 0.891*** | 0.467* | 1.021*** | 0.833*** |
| | (0.27) | (0.28) | (0.27) | (0.28) |
| FDI * education | –0.227*** | –0.130* | –0.246*** | –0.197** |
| | (0.08) | (0.08) | (0.08) | (0.08) |
| Female | –0.030 | –0.027 | 0.011 | 0.012 |
| | (0.02) | (0.02) | (0.02) | (0.02) |
| Age | –0.001 | –0.001 | –0.002** | –0.002* |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Income | 0.030*** | 0.030*** | 0.008 | 0.001 |
| | (0.01) | (0.01) | (0.01) | (0.01) |
| Married | | 0.009 | | 0.012 |
| | | (0.03) | | (0.03) |
| # of children | | 0.003 | | 0.000 |
| | | (0.01) | | (0.01) |
| Foreign relatives | | 0.019 | | 0.095*** |
| | | (0.03) | | (0.03) |
| International news | | 0.010 | | 0.000 |
| | | (0.02) | | (0.02) |
| Urban resident | | 0.061** | | 0.032 |
| | | (0.03) | | (0.03) |
| Panel-level variance | 0.215*** | 0.211*** | 0.169*** | 0.171*** |
| # respondents | 11414 | 10693 | 11488 | 10760 |
| # of countries | 15 | 15 | 15 | 15 |
| Prob > Chi2 | 0.000*** | 0.000*** | 0.000*** | 0.000*** |
| Log-Likelihood | –13673.59 | –12774.47 | –13454.01 | –12578.09 |
| AIC | 27367.18 | 25578.94 | 26928.02 | 25186.17 |

Multilevel ordered probit regression models; respondents are nested within countries.
Constants and cutoff points not reported. Standard errors in parentheses.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

Table 4.4: Study 1 – Support for Autocratic Rule and Democratization

| | *Dependent variable:* preferences against autocracy | | for democracy | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Education level | 0.063*** | 0.052*** | 0.041*** | 0.028** |
| | (0.01) | (0.01) | (0.01) | (0.01) |
| FDI exposure | 1.009*** | 0.807** | 1.193*** | 1.173*** |
| | (0.31) | (0.32) | (0.33) | (0.35) |
| FDI * education | –0.181** | –0.132 | –0.200** | –0.177* |
| | (0.09) | (0.09) | (0.09) | (0.10) |
| Female | –0.078*** | –0.066*** | –0.073*** | –0.068*** |
| | (0.02) | (0.02) | (0.02) | (0.03) |
| Age | 0.000 | –0.001 | –0.001 | –0.003** |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Income | –0.001 | 0.002 | 0.009* | 0.012** |
| | (0.00) | (0.01) | (0.01) | (0.01) |
| Married | | 0.056* | | 0.095*** |
| | | (0.03) | | (0.03) |
| # of children | | 0.011 | | 0.016* |
| | | (0.01) | | (0.01) |
| Foreign relatives | | –0.005 | | 0.045 |
| | | (0.03) | | (0.03) |
| International news | | 0.071*** | | 0.075*** |
| | | (0.02) | | (0.03) |
| Urban resident | | 0.065** | | 0.046 |
| | | (0.03) | | (0.03) |
| Panel-level variance | 0.202*** | 0.201*** | 0.427** | 0.418** |
| # respondents | 13708 | 12783 | 13857 | 12957 |
| # of countries | 15 | 15 | 15 | 15 |
| Prob > Chi2 | 0.000*** | 0.000*** | 0.000*** | 0.000*** |
| Log-Likelihood | –8455.16 | –7827.74 | –7192.34 | –6604.44 |
| AIC | 16926.32 | 15681.48 | 14400.68 | 13234.88 |

Multilevel probit regression models; respondents are nested within countries.
Constants and cutoff points not reported. Standard errors in parentheses.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

Table 4.5: Descriptive Statistics (Analysis of Regime Support in Russia)

| | N | Mean | SD | Min | Max |
|---|---|---|---|---|---|
| Unemployed, but wants work | 124153 | 0.14 | 0.35 | 0.00 | 1.00 |
| Concern about necessities | 122752 | 3.77 | 1.25 | 1.00 | 5.00 |
| Economic dissatisfaction | 123215 | 3.66 | 1.13 | 1.00 | 5.00 |
| Lower rank in society | 120086 | 6.00 | 1.39 | 1.00 | 9.00 |
| Distrust in business | 18278 | 3.21 | 1.05 | 1.00 | 5.00 |
| Distrust in institutions | 19992 | 0.21 | 0.41 | 0.00 | 1.00 |
| Female | 124224 | 0.53 | 0.50 | 0.00 | 1.00 |
| Age (in years) | 124220 | 33.61 | 11.81 | 13.00 | 70.00 |
| Income (ln) | 119571 | 6.93 | 3.71 | 0.00 | 14.63 |
| Married | 123906 | 0.51 | 0.50 | 0.00 | 1.00 |
| Second job | 124026 | 0.03 | 0.17 | 0.00 | 1.00 |
| Self-employed | 115585 | 0.03 | 0.17 | 0.00 | 1.00 |
| Public sector | 113010 | 0.34 | 0.48 | 0.00 | 1.00 |
| Regional center | 124224 | 0.41 | 0.49 | 0.00 | 1.00 |
| City | 124224 | 0.26 | 0.44 | 0.00 | 1.00 |
| Small town | 124224 | 0.06 | 0.25 | 0.00 | 1.00 |
| Village | 124224 | 0.26 | 0.44 | 0.00 | 1.00 |

Table 4.6: Study 2 – Perceived and Realized Economic Insecurity

| | *Dependent variable:* | | |
|---|---|---|---|
| | Unemployed, but wants work | Concern about necessities | Economic dissatisfaction |
| | (1) | (2) | (3) |
| Education level | 0.192*** | 0.045*** | 0.026*** |
| | (0.01) | (0.01) | (0.01) |
| FDI exposure | 0.158*** | 0.053* | 0.036 |
| | (0.05) | (0.03) | (0.03) |
| FDI * education | –0.067*** | –0.031*** | –0.014* |
| | (0.02) | (0.01) | (0.01) |
| Female | –0.002 | 0.191*** | 0.023 |
| | (0.02) | (0.02) | (0.01) |
| Age | 0.010*** | 0.021*** | 0.023*** |
| | (0.00) | (0.00) | (0.00) |
| Income | –0.125*** | –0.009*** | –0.040*** |
| | (0.00) | (0.00) | (0.00) |
| Married | –0.257*** | 0.031** | –0.154*** |
| | (0.03) | (0.01) | (0.01) |
| Second job | | –0.115*** | –0.140*** |
| | | (0.03) | (0.03) |
| Self-employed | | –0.228*** | –0.381*** |
| | | (0.04) | (0.04) |
| Public sector | | –0.042*** | –0.044*** |
| | | (0.01) | (0.01) |
| Regional center | | baseline | |
| City | –0.150*** | 0.297*** | 0.092*** |
| | (0.03) | (0.02) | (0.02) |
| Small town | –0.185*** | 0.217*** | 0.164*** |
| | (0.06) | (0.04) | (0.03) |
| Village | 0.285*** | 0.531*** | 0.326*** |
| | (0.03) | (0.02) | (0.02) |
| Panel-level variance | 1.045*** | 0.802*** | 0.676*** |
| # of observations | 51291 | 79657 | 79849 |
| # of respondents | 17359 | 22447 | 22488 |
| Prob > Chi2 | 0.000*** | 0.000*** | 0.000*** |
| Log likelihood | –22126.34 | –105682.77 | –106280.56 |
| AIC | 44294.69 | 211419.54 | 212615.12 |

Multilevel probit (1) and ordered probit (2 and 3) regression models.
Year or wave dummies, constants, and cutoff points not reported.
Standard errors in parentheses.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

Table 4.7: Study 2 – Social Status and Regime Evaluation

| | *Dependent variable:* | | |
|---|---|---|---|
| | Lower Rank in society | Distrust business | Distrust institutions |
| | (1) | (2) | (3) |
| Education level | –0.085*** | –0.045*** | 0.003 |
| | (0.01) | (0.01) | (0.02) |
| FDI exposure | 0.046* | 0.165*** | 0.101 |
| | (0.03) | (0.06) | (0.07) |
| FDI * education | –0.015** | –0.029* | –0.055*** |
| | (0.01) | (0.02) | (0.02) |
| Female | 0.075*** | 0.010 | 0.035 |
| | (0.01) | (0.02) | (0.03) |
| Age | 0.022*** | 0.012*** | –0.007*** |
| | (0.00) | (0.00) | (0.00) |
| Income | –0.024*** | –0.009** | –0.039*** |
| | (0.00) | (0.00) | (0.00) |
| Married | –0.140*** | –0.101*** | –0.009 |
| | (0.01) | (0.02) | (0.03) |
| Second job | –0.047* | –0.121* | –0.191** |
| | (0.03) | (0.06) | (0.09) |
| Self-employed | –0.384*** | –0.589*** | 0.286*** |
| | (0.03) | (0.07) | (0.09) |
| Public sector | –0.118*** | 0.150*** | 0.266*** |
| | (0.01) | (0.02) | (0.03) |
| Regional center | | baseline | |
| City | 0.058*** | –0.014 | 0.274*** |
| | (0.02) | (0.02) | (0.03) |
| Small town | 0.145*** | 0.019 | 0.301*** |
| | (0.03) | (0.04) | (0.06) |
| Village | 0.123*** | –0.161*** | 0.387*** |
| | (0.02) | (0.03) | (0.03) |
| Panel-level variance | 0.735*** | 0.336*** | 0.384*** |
| # of observations | 78035 | 16962 | 18646 |
| # of respondents | 22311 | 13909 | 15027 |
| Prob > Chi2 | 0.000*** | 0.000*** | 0.000*** |
| Log likelihood | –175192.65 | –23573.18 | –9139.83 |
| AIC | 350463.31 | 47184.36 | 18311.67 |

Multilevel linear (1), ordered probit (2), and probit (3) regression models.
Year or wave dummies, constants, and cutoff points not reported.
Standard errors in parentheses.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

# Chapter 5

# FDI and Public Protest

co-authored with Tabea Palmtag and Stefanie Walter

Do FDI-induced grievances and demands translate into politics via popular protest?[1] The results from the previous chapter lend strong support to the argument that FDI creates far-reaching economic grievances among poorly educated individuals. The low-skilled masses in FDI-intensive regions are more distressed than highly skilled members of the middle class. And they are also more aggrieved than equally poorly educated individuals in regions that are less open to FDI. At the same time, a considerable share of the population actually shows higher levels of satisfaction with their current economic and political situation. As FDI has spread worldwide and discontent has grown in tandem, an answer to the question whether FDI enhances or endangers domestic political stability has become increasingly important. Even more in autocratic regimes, since protesting is a substitute to voice political demands in the absence of electoral competition.

In this chapter, we analyze how the distributional consequences of FDI motivate protest behavior as well as which types of protest FDI is likely to induce. We leverage regional variation in FDI exposure and protest events in Russia. As one of the BRIC countries, Russia is an emerging market economy that has opened up significantly in recent decades. It is not just an important case in and of itself, but is also representative for many similar emerging market economies, in which democratic avenues for the expression of FDI-related

[1] The empirical analyses in this chapter rely mostly on a joint paper with Tabea Palmtag and Stefanie Walter. I have profited immensely from their intellectual contributions.

grievances are limited. Because Russia is a very large country, whose 83 regions vary significantly both with regard to FDI exposure as well as protest prevalence, it allows to explore the effect of economic globalization on protest holding the national political, regulatory, and economic setting constant.

## 5.1 Public Protest in the Literature

Existing research on the nexus between international economic openness and public protest is mostly concerned with the effects of economic globalization in general. Some scholars argue that because economic globalization raises domestic welfare, it increases domestic political stability. Others contend that because it only benefits some, but hurts others, it fosters instability. This is particularly true with research on one important aspect of domestic political instability: public protest. Some studies find that economic openness is associated with fewer protest activities (Dodson, 2015). Others find a destabilizing effect, however. For example, foreign direct investment inflows have been found to instigate labor protests in developing countries (Robertson and Teitelbaum, 2011) or changes in international food prices have been found to increase the likelihood of protests (Hendrix and Haggard, 2015). In addition to these positive and negative findings, yet another group of studies casts doubt that economic openness has any effect on domestic social unrest at all (Bussmann, Scheuthle, and Schneider, 2006; Karakaya, 2016).

A similar debate about the effect of economic globalization with equally mixed results evolved in the civil war literature. Magee and Massoud (2011) and Sorens and Ruger (2015) find no effect of economic globalization on civil war onset. In contrast, a number of studies detect a pacifying effect (Barbieri and Reuveny, 2005; Blanton and Apodaca, 2007; Flaten and de Soysa, 2012; Hegre, Gissinger, and Gleditsch, 2003). And a third group of scholars finds a conflict-enhancing effect (Hartzell, Hoddie, and Bauer, 2010; Nieman, 2011). Since the empirical studies provide only inconclusive results, the jury is still out in this debate. This chapter contributes to answering the question how globalization affects the occurrence of public protests by building on insights from the newest generation of trade theory, which suggest that economic glob-

alization has more heterogeneous distributional effects than implied by earlier models (Helpman, Melitz, and Yeaple, 2004; Melitz, 2003). Existing studies often focus on aggregate effects of trade (e.g., Karakaya, 2016), are agnostic about its distributive effects (e.g., Dodson, 2015), or rely on outdated trade models (e.g., Bussmann, Scheuthle, and Schneider, 2006; Bussmann and Schneider, 2007), which means that they do not adequately model the distributive effects of international trade and FDI.

## 5.2 Observable Implications of the Argument

Modern models of international trade and multinational production suggest that the effect of FDI on political discontent is likely to vary considerably among different individuals. FDI benefits well-educated individuals and hurts the less educated. Yet, these effects are not uniform within educational groups, but vary depending on whether individuals are actually exposed to global competition in their workplace (Jensen, Quinn, and Weymouth, 2017; Walter, 2017). Under these circumstances, people should generally be more likely to protest, especially because public protest ensures timeliness and public visibility of demands. Not surprisingly, a number of studies indicate that grievances increase the likelihood that an individual will participate in protest (Bernburg, 2015; Grasso and Giugni, 2016; Kern, Marien, and Hooghe, 2015).

Yet not every aggrieved individual protests publicly. Protesting is costly; people have to mobilize, spend time protesting, and sometimes face repression and punishment for protest behavior (Carey, 2006; Davenport, 1995; Robertson, 2010). The decision to engage in protest thus depends on an individual calculation of the costs and benefits of becoming active. Protesting may benefit individuals by allowing them to publicly express their grievances and by increasing the chances to bring about change to an undesirable situation. Yet, the payoffs are not always large and individual costs may be high. This is why it is not only vital that people have motives to protest, but it also matters in which circumstances they are mobilized (Tarrow, 2011).

We argue that individuals protest when they feel that their grievances are not just an individual problem, but when many share the same grievances.

The individual-level effects of FDI thus only translate into wider societal effects when they accumulate. The costs of participation for individuals tend to decrease the more similarly aggrieved individuals join protest activities. This implies that the number of potential protesters – that is, other individuals with similar concerns – in close proximity matters, turning the regional situation into an important context.

Depending on the prevalence of highly and poorly educated individuals in regions and the average exposure of these regions to FDI, some regions benefit more from FDI than others. In regions with a high share of FDI winners, for example, average wages are likely to be higher and unemployment is likely to be lower, leading to greater prosperity in these regions. In contrast, regions in which exposure to FDI is high but meets a rather poorly educated workforce are likely to see lower average wages, more unemployment, and less prosperity. Thus, the effects of FDI on the regional economy depend on the interaction between exposure to FDI and the average level of education in the regional workforce.

As a consequence, citizens are most likely to turn to the political sphere and publicly express their grievances when they live in an in environment, in which the workforce is on average poorly educated and highly exposed to international competition. Whereas a small group of highly educated individuals gains from economic openness, the masses lose out. This is a hazardous situation, as comparison to a few that are better off tends to increase perceived economic grievances and instigate protest (Gurr, 1970). In contrast, FDI openness has a pacifying effect in contexts in which a majority benefits from multinational corporations. As the group of FDI winners is large and the group of FDI losers is small, there are few potential fellow aggrieved individuals with whom to engage in protest activities. Finally, protest levels should be in between these two extremes in contexts where both groups of FDI losers and winners are small. For most people in these regions, motives for protest should not be associated with FDI exposure.

*H5.1: FDI induces public protests in low-skilled regions with a high share of aggrieved citizens. FDI leads to less protest events in regions where the beneficiaries of FDI predominate.*

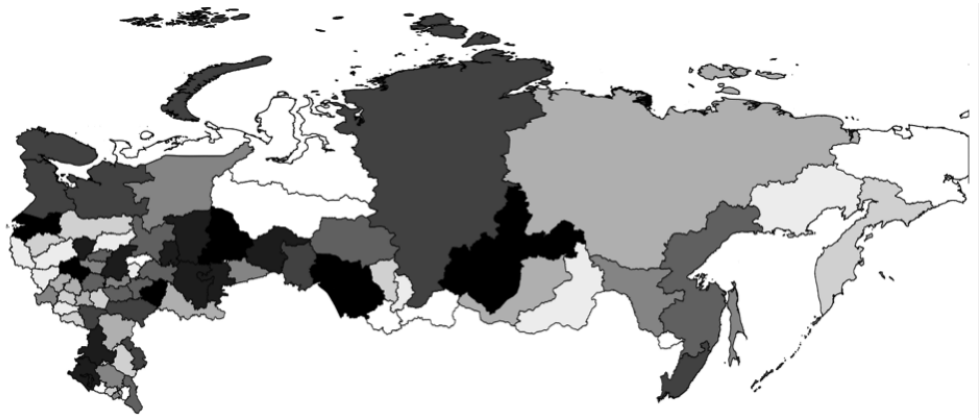
## 5.3 Research Strategy

To test this hypothesis empirically, we focus on regional variation in the Russian Federation and proceed in two steps. The first set of models examines whether FDI affects regional economic welfare, which is an integral part of the theoretical mechanism. We show that FDI increases wages, consumption, and employment in regions with high education levels, but decreases economic prosperity in regions with low education levels. The second set of models then turns to the overall effect of FDI on the likelihood of public protest. The results show that although FDI exposure by itself has no effect on protest behavior, it significantly impacts protest events once the moderating effect of the regional education level is taken into account. Higher levels of FDI increase protests in regions in which poorly educated globalization losers dominate, but decrease protest levels in regions with high average levels of education.

### 5.3.1 Case Selection

The empirical analysis focuses on Russia over the period from 2007 to 2012. We build on a quantitative single-case study design for three main reasons: First, Russia is a large country with 83 regions that vary widely both with respect to the intensity of public protests and exposure to economic globalization, but which are set within the same national political, regulatory, and economic context. Figure 5.1 shows that the total number of protests in Russia's regions between 2007 and 2012 varied considerably (darker shades imply a higher number of protests). These protests are not clustered in specific parts of Russia. Regions where protest is generally absent and regions where protest is more common are spread across the entire country.

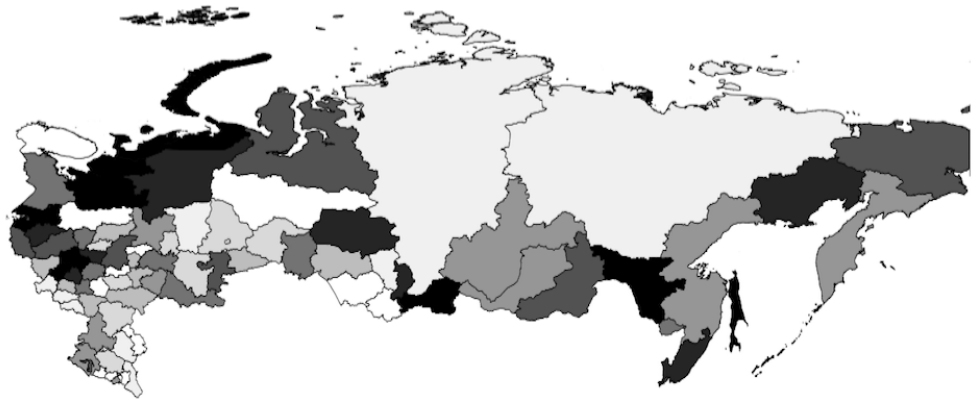
We observe a similarly high variation in regional exposure to FDI (see Figure 5.2). Again, high exposure to FDI inflows is dispersed across the country. In addition to this cross-regional variation, Russia also exhibits significant variation over time. Since the turn of the century, Russia has seen a tremendous rise in international economic openness (Bayulgen, 2010). Yet, this increase in international investment has been unevenly spread across regions. Thus, cross-regional and over-time variation within the Russian Federation



Note: number of grassroots protest events between 2007 and 2012; darker shades imply a higher number of protests.

Figure 5.1: Regional Variation in the Number of Grassroots Protest

allows us to examine the effect of FDI on protest behavior within the same national context. It also allows to rule out important alternative explanations for protest behavior that may vary on the country level, such as variation in overall repression levels, the attractiveness of alternative means for expressing discontent, legal regulations regarding economic openness, and other opportunity structures or country-level grievances (Robertson, 2007).



Note: FDI inflows over over GRP, 2007-2012 average; darker shades imply more FDI.

Figure 5.2: Regional Variation in Exposure to FDI

Second, Russia has been a hybrid regime since the breakup of the Soviet Union, hanging in the balance between autocracy and democracy.[2] Although

[2] Geddes, Wright, and Frantz (2014) code Russia as autocracy since 1993, when Boris Yeltsin

presidential and legislative elections are regularly held, electoral competition is plagued by an uneven playing field (Levitsky and Way, 2010). Opposition parties are allowed to run, but media coverage is strongly biased in favor of the ruling party, United Russia. Electoral fraud is widespread and distorts political competition. Freedom of assembly is oftentimes constrained and non-governmental organizations face difficulties to communicate politically. Nevertheless, non-system opposition groups are tolerated and active. Incentives to protest are higher in such contexts, because other (electoral) means of expressing discontent are less effective, while the costs of protests are not intolerably high.[3] This enables us to observe the effect of FDI on public protest, estimating an upper bound of this effect. Importantly, Russia is representative of many emerging market economies that have recently become much more economically open. As such, the results provide insights into the dynamics FDI generates for political stability.

Finally, Russia is a suitable case for our analysis for a practical reason: the available data facilitates not only a close examination of the effect of FDI on protest behavior, but also an exploration of the theoretical mechanism underpinning the argument on the regional level.

### 5.3.2 Operationalization

In the first step of the analysis, which probes the theoretical mechanism, we explore how FDI influences regional economic welfare. We use three different dependent variables to operationalize regional welfare levels: wage levels,

unconstitutionally dissolved the Congress of People's Deputies with military power, enforced the establishment of the State Duma, and banned eight parties from competing in subsequent elections. Freedom House (2015) reports that civil liberties and political rights are severely curtailed. Although Cheibub, Gandhi, and Vreeland (2010) also code autocracy, they indicate that Russia could be considered democratic if government turnover were to occur. Polity IV paints the most optimistic picture, emphasizing that there are certain democratic principles in place, such as multi-party elections. Its coding alternates between democracy and anocracy (Marshall and Gurr, 2011).

[3] In very closed autocracies, where repression is extraordinarily high, few people are likely to protest openly, because engaging in protest almost always gets punished and, as such, goes along with tremendous costs (Linz, 2000). In stable democracies on the other hand, the effectiveness of elections in transmitting political demands and the responsiveness of governments to convert demands into policies is higher and may discourage people from the use of protest (Robertson, 2010). Accordingly, incentives to engage in protest are lower in both closed autocracies and in full democracies.

personal consumption expenditures, and employment rates. Regional average wage levels are based on data provided by ICSID (2015), covering the years 2004 to 2013, and are standardized with the gross regional product and log-transformed because the resulting variable is highly skewed. Personal consumption expenditures per capita (in 1000 USD) and overall regional employment rates (number of employed persons divided by population size) are taken from Mirkina (2014) and are available from 2004 to 2009. If globalization benefits a region, wages, consumption, and employment should increase, implying an increase in regional economic welfare, and vice versa.

In the second step of the analysis, we examine how FDI affects the frequency of regional political protests. To measure the dependent variable, regional public protest, we focus on grassroots protests.[4] We operationalize grassroots protests using regional data provided by Reuter and Robertson (2015), who rely on weekly reports on the website of the Institute of Collective Action (IKD) to count the number of protest events. In total, the IKD has reported 5667 events between 2007 and 2012. We use the total number of protests in a given year in each region.[5] These grassroots protests are typically organized by non-system actors, i.e. social groups without direct access to Russia's political institutions who have to appeal to shared grievances to incentivize people to participate and therefore closely resonate with individual interests and demands. Even if protesters do not share organizational or other social ties, they have material interests and policy preferences in common. Therefore, these protests focus on economic concerns and demands for improvement of challenging material situations. Involved workers oftentimes protest wage arrears or low wages, they object the difficulties of finding a new job when currently being unemployed, or they voice their difficulties with making a living (Robertson, 2010, 59). Protesters are consequently motivated to join by their grievances and the appearance of a sizable number of other individuals with similar concerns. In further analyses, we utilize the protest

[4] See Table 5.2 in the Appendix for the descriptive statistics of all variables.

[5] Reuter and Robertson (2015) provide their data on a monthly basis. Information on grassroots protest is available from January 2007 to March 2012. Because protest events from January to March make up about 25% of all protests in 2007 to 2011, We multiply the number of protests in 2012 by 4 to arrive at the yearly number of protests. The results are robust to using only those years for which complete information is available.

issues coded by Reuter and Robertson (2015) to limit the analyses to those protests that match our argument closest: protests about wages, labor rights, and policies to change the material welfare distribution. Solely economically motivated protests make up 37% of all grassroots protests. Thus, a considerable share of all protest instances is exclusively about addressing material concerns by taking related demands to the local streets.

Apart from grassroots protest, we also examine the effect of FDI on elite-led protest, which tend to be pre-organized by Russia's main opposition party, the Communist Party of the Russian Federation. Their non-parliamentary activities include strikes, marches, and demonstrations (Reuter and Robertson, 2015).[6] Because grassroots protests rely to a large extent on common grievances, whereas elite-led protests depend more on the mobilization of pre-existing ties that need not be connected with shared concerns emanating from regional trends in welfare (McAdam, Tarrow, and Tilly, 2009; McCarthy and Zald, 1977; Tarrow, 2011) and tend to be dominated by partisan issues, we expect FDI to only affect grassroots, but not elite-led protest. As such, FDI does not affect large-scale and opposition-driven political discontent. Elite-led protests are operationalized as protests organized by the KPRF, as published in their news reports on the official website (Reuter and Robertson, 2015). Between 2007 and 2012, the KPRF initiated a total of 3898 protests.

Our argument suggests that regional FDI exposure in conjunction with regional education levels should be associated with the variance in protest events over time and across regions. We focus on the most important dimensions of economic globalization: foreign direct investment. We measure regional exposure to foreign direct investment using FDI inflows into Russian regions, divided by the gross regional product. Data is available for 75 regions (ICSID, 2015). Furthermore, we take the natural logarithm. In theoretical terms, a log-transformation corresponds to decreasing marginal returns, which reflects our expectation that the effect of an increase in FDI

[6] Information on elite-led protest is available from July 2007 to June 2012. In years with complete information (2008 to 2011), around 50% of all protests take place in the first half of the year. Hence, we multiply protest events in 2007 and 2012 by 2 to account for the missing months. The results are robust to using only those years for which complete information is available.

exposure on protest should decrease the higher the overall exposure already is. In methodological terms, taking a logarithm is an efficient way to deal with highly skewed data, which is the case for FDI inflows.

Average regional education levels are operationalized as the share of individuals with at least a secondary education degree (Mirkina, 2014). Because the data unfortunately does not cover the time period from 2010 onwards, we take the average of the share of people with secondary and tertiary education between 2007 and 2009, the years for which data on protests is available, and extrapolate the missing years. We thus assume that the average regional education level remains constant. As trends over time suggest a rather steady and uniform picture, extrapolating over three years is a reasonable approximation for regional education levels.[7] We subtract the minimum share of average education levels, such that we can directly interpret the effect of FDI at the minimum of the empirically observable regional education level.

Because our argument suggests that the effect of FDI on protest behavior is conditional on the average education level of the regional workforce, we include a multiplicative interaction term between each of the measures of globalization and regional education levels (Brambor, Clark, and Golder, 2006). Reflecting the expectation that FDI exposure in regions with a poorly (well) educated workforce should decrease (increase) economic welfare in these regions and increase (decrease) protest activity, we expect a positive interaction term for regional welfare as the dependent variable and a negative interaction term when analyzing grassroots protest.

### 5.3.3 Model Specification

We use different model specifications for regional welfare and regional public protest. The indicators of regional prosperity – wage levels, personal consumption, and employment share – are continuous. We analyze these dependent variables using OLS regression models with panel-corrected standard errors (Beck and Katz, 1995). In light of the very short time series and in conjunction with a significantly higher number of units (up to 76 regions), fixed

[7] The results are robust to using averages over a longer time span to extrapolate regional education levels.

effects panel estimators are rather inefficient. The main explanatory variables are FDI exposure, regional education levels, and the interaction between both variables. The models also control for population size, the share of people living in urban areas, distance to Moscow and road density. All explanatory variables are lagged by one year.

For regional public protest, we employ count regression models to analyze the effect of FDI. Count models are suitable for discrete, non-negative variables, such as the number of protests. Due to the presence of over-dispersion, we rely on negative binomial regression as opposed to Poisson regression models (Hilbe, 2014) and include random effects dispersion parameters on the regional level (Guimaraes, 2008).

In the baseline specification, we control for other factors that affect domestic unrest (Chenoweth and Ulfelder, 2017; Kern, Marien, and Hooghe, 2015; Reuter and Robertson, 2015; Robertson and Teitelbaum, 2011; Solt, 2015), using data provided by ICSID (2015). Protest may be more likely in regions characterized by a large population size and in regions with a higher mobilization capacity, operationalized as share of urban residents. Per capita gross regional product proxies for the overall welfare of each region. The growth rate of the gross regional product as well as the regional unemployment rate control for economic grievances and tend to be important determinants of public protest. Newspaper coverage controls for the probability that people are informed about regional developments and the level of transparency granted by local officials, which may lower the costs of participating in protests. Finally, we use the distance of the regional capital to Moscow and the density of the road infrastructure.

In an extended specification, we also include international trade exposure. We measure this variable with the natural logarithm of the sum of regional imports and exports of goods, standardized by each region's gross regional product. Data is provided by ICSID (2015) for about 80 regions, based on reports by Rosstat, the Russian Federation's Federal State Statistics Service. Because trade should exhibit similar effects on protest, we also include the interaction term between trade exposure and regional education shares. Moreover, we additionally include natural resource rents that emanate from

oil and gas extraction, regional freedom of the press as a measure for repression, and the mandate share of the Communist Party of the Russian Federation in regional parliaments, which proxies for political cooptation of the main opposition (the three variables are taken from Reuter and Robertson, 2015). The main results are robust to these additional control variables. All explanatory variables are lagged by one year.

## 5.4 Empirical Evidence

### 5.4.1 Regional Economic Welfare

How does FDI affect regional welfare? This section presents analyses that examine the mechanism connecting FDI and public protest. Our argument centers on the material effects of international openness. We argue, that these benefit highly educated individuals but hurt less-educated individuals. These effects accumulate on the regional level. FDI should increase regional welfare in regions in which many highly educated individuals live, but decrease welfare in low-education regions, suggesting a positive interaction term between secondary education level and FDI. As such, the effect of FDI should be mediated by the regional share of well-educated citizens.

We test this argument with data on three different indicators of regional prosperity: wage levels, consumption levels, and employment shares. The results reported in Table 5.1 support our argument that FDI exposure is associated with variation in regional economic welfare. FDI exposure depresses wages (model 1) in regions in which only a small fraction of people holds a secondary education degree. However, the positive and statistically significant interaction term shows an increasingly positive effect of FDI on regional wage levels as the average education of the regional workforce improves. The same pattern holds for personal consumption (model 2) and employment (model 3). Although FDI has no effect in poorly educated regions regions, the interaction terms are again positive and statistically significant. Hence, regions with a highly educated labor force prosper under FDI.

These results provide support for the underlying mechanism suggested

Table 5.1: Impact of FDI on Regional Welfare

| | *Dependent variable:* | | |
|---|---|---|---|
| | Regional wage-level | Personal consumption | Employment share |
| | (1) | (2) | (3) |
| Regional FDI exposure | –0.283*** | 0.053 | –0.004 |
| | (0.09) | (0.16) | (0.01) |
| FDI * education share | 0.039*** | 0.038** | 0.001* |
| | (0.01) | (0.02) | (0.00) |
| Secondary education share | 0.010 | –0.004 | –0.000 |
| | (0.01) | (0.01) | (0.00) |
| Population size | –0.520*** | 0.405*** | –0.006*** |
| | (0.01) | (0.05) | (0.00) |
| Urban population | –0.005** | 0.025*** | 0.002*** |
| | (0.00) | (0.00) | (0.00) |
| Distance to Moscow | –0.130*** | –0.044 | 0.002*** |
| | (0.02) | (0.03) | (0.00) |
| Road density | –0.167*** | –0.416*** | 0.001* |
| | (0.02) | (0.05) | (0.00) |
| Constant | 0.086 | 2.591*** | 0.287*** |
| | (0.38) | (0.57) | (0.01) |
| # of observations | 641 | 351 | 351 |
| # of regions | 76 | 74 | 74 |
| R squared | 0.75 | 0.50 | 0.23 |
| Prob >Chi2 | 0.000 | 0.000 | 0.000 |

OLS regression models with pairwise deletion.
Panel-corrected standard errors in parentheses.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

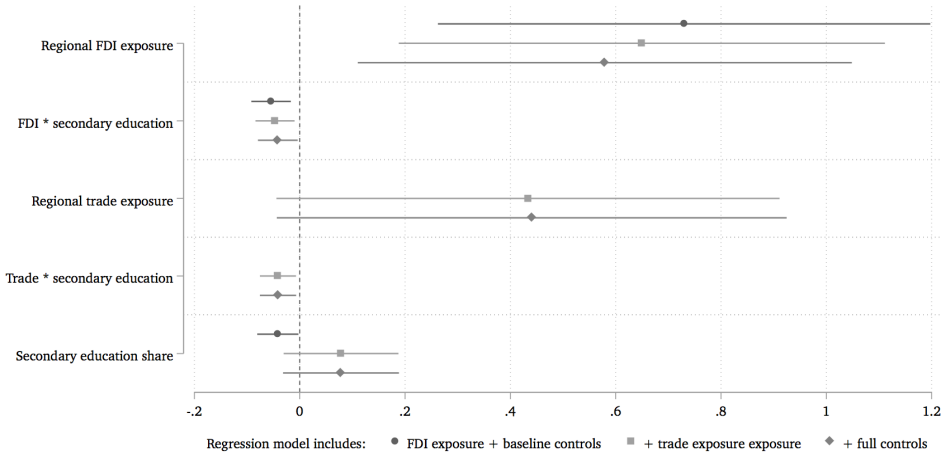
by our argument. In regions that fare poorly under FDI, the group of potentially aggrieved individuals is likely to be much larger than in regions that benefit from economic openness, contributing to the heterogeneous effect of FDI on protest behavior. These results also highlight the importance of taking the sub-national context into account.

### 5.4.2 Public Protest in Russian Regions

How does FDI affect domestic public protest? Grassroots protest should occur most frequently in poorly educated contexts strongly exposed to globalization, and least often in strongly exposed regions characterized by high average ed-

ucation levels. Protest incidents should be of an intermediate frequency in regions relatively sheltered from international trade and FDI. This argument suggests that the interaction term between regional FDI exposure and regional education levels is negative.

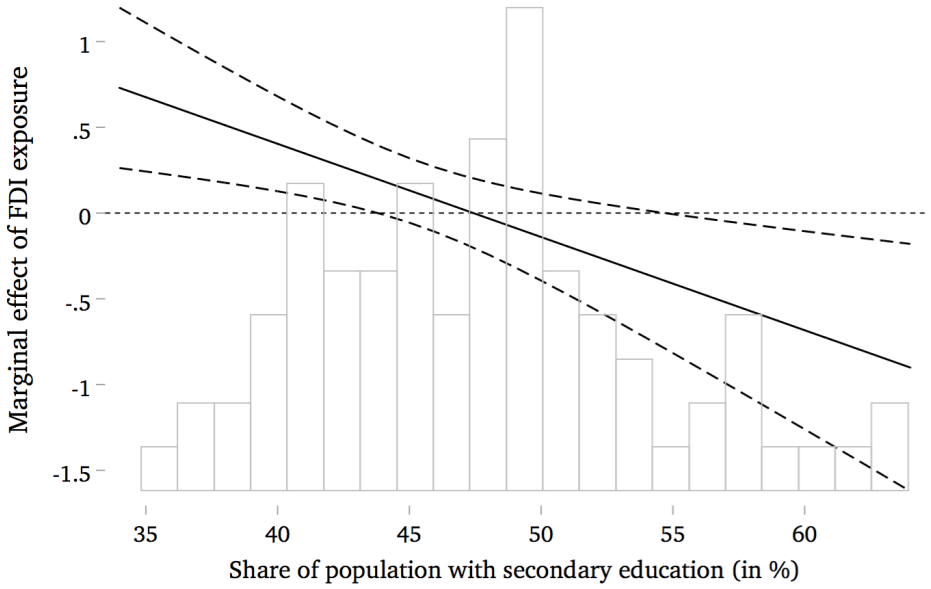
Table 5.3 reports the findings of the analysis of grassroots protest. Model 1 shows the unconditional effect of FDI on grassroots protests. It suggests that FDI does not unfold any substantially or statistically significant effect on the number of protests, echoing the results from previous studies that do not find any effect of economic openness on domestic social unrest (Bussmann, Scheuthle, and Schneider, 2006; Karakaya, 2016). Our argument, however, suggests that the effect of FDI exposure on protest is not uniform, but depends on the level of education among the workforce, which determines whether FDI will predominantly create winners or losers in a region. To test this argument, model 2 interacts FDI inflows with the share of people that have completed at least secondary education. This fundamentally changes the picture: Not only does a likelihood-ratio test indicate that the interaction model performs significantly better than the unconditional model, we now also find that in line with the theoretical expectations, FDI increase the number of grassroots protests in contexts with low education levels (see Figure 5.3).




Note: results from negative binomial regression models (2-4), reported in Table 5.3; control variables not shown; 95% confidence intervals.

Figure 5.3: Impact of FDI on Regional Public Protest

The interaction term between FDI and education levels is negative and statistically significant in all specifications examining grassroots protests, even when controlling for international trade. To facilitate the interpretation of these results, we present a marginal effects plot of the interaction term in Figure 5.4, which shows how the effect of exposure to FDI changes as the share of highly educated individuals increases. FDI does not have a uniform effect on protests, as rising education levels reverse the relationship between exposure to international investment and grassroots protest. Whereas FDI increases protest incidence in regions with low average education levels, it is associated with less protest activities in all regions where more than half of the population completed secondary education.




Note: results based on model 2 in Table 5.3; control variables held at their means; 95% confidence intervals.

Figure 5.4: Marginal Effect of FDI on Regional Public Protest

As for the control variables (see Table 5.3), we find that protest is consistently more wide-spread in poorer and more populated regions. Regional economic growth deters protest. Regions that are farther away from Moscow experience higher levels of social unrest. In contrast, urbanization, the unemployment rate, the number of newspapers, road density, as well as natural

resource rents and press freedom do not have a statistically significant effect on protest incidence.[8]

The models in Table 5.4 present additional analyses. Here, the dependent variable is restricted to those grassroots protests that concentrate on economic issues. Although FDI exhibits a protest-facilitating effect on its own in model 1, the remaining models once again make clear that regional education levels mediate the effect of FDI exposure. As soon as the conditional effect of the regional education level is taken into account, FDI matters in the way predicted. Protests regarding labor rights, wages, or changes in the material distribution of welfare are much more frequent in regions in which a poorly educated workforce is exposed to FDI, whereas such protests rarely occur in regions in which a highly educated workforce is exposed to FDI.

In contrast to grassroots economic protest, the models in Table 5.5 examine elite-led political protest. As expected, FDI has no effect on the frequency of opposition protests, i.e. protests pre-organized by the Communist party KPRF. This is the case in both the unconditional as well as the conditional model.[9] Hence, these events are much less driven by material motives, but occur more frequently in more populated and richer regions that are farther away from Moscow, provide a better infrastructure in terms of road density, and where news coverage is high. This suggests that in contrast to grassroots protests, which are clearly linked to FDI-related grievances, protests organized by groups or organizations that already have privileged access to political institutions, such as the KPRF, are much more strongly affected by factors influencing mobilization capacity rather than shared economic grievances.

In sum, these findings provide evidence for our argument that exposure to FDI influences domestic protest levels, but that the effect strongly depends on the educational context. FDI feeds domestic conflict when labor is poorly educated, but mitigates protests in contexts in which a well-educated population benefits. These analyses thus suggest that the effect of FDI on

[8] Despite the fact that FDI directly influences the gross regional product and unemployment, the inclusion of both variables does not change the findings.

[9] The coefficients of FDI are generally smaller and not statistically significant. There is also no statistically significant difference in the log-likelihoods of the conditional and unconditional models, suggesting that in contrast to the models on grassroots protests, the interaction term does not add explanatory power.

protest behavior – and domestic political stability more generally – are more nuanced than previous studies have acknowledged. Nevertheless, the protest-enhancing effect emanating from economic grievances does not translate into political upheaval that has the potential to destabilize the autocratic regime.

## 5.5 Implications for Autocratic Regime Survival

What implications do these findings have for autocratic regime survival? This analysis shows that FDI can have both negative and positive effects, depending on the regional context and the prevailing distributive consequences. Because poorly educated individuals lose out from FDI, they develop economic grievances. When this group of FDI losers is large enough, they turn to the political sphere and publicly protest to voice these grievances. In contexts in which more people benefit from FDI than are hurt by it economic openness has a pacifying effect. As less people lose out and the overall regional economic situation improves, the likelihood of public protests declines.

These results have implications for our understanding of autocratic politics. First, they can explain the null findings in the previous literature, as positive and negative effects of FDI cancel each other out when the specific distributive effects are not modeled properly. Overall, this chapter demonstrates that it is crucial to take the specific distributive effects of globalization into account when examining FDI's political consequences in autocratic regimes. Second, this chapter shows that grassroots protests on economic issues are an ordinary feature of autocratic politics. Because democratic means for voicing economic grievances are often circumscribed, people use other channels to publicly express their discontent. Yet, FDI-related grievances do not cascade into large-scale uprisings that aim at overthrowing the incumbent regime. In contrast, FDI might even generate new support groups for autocratic regimes. FDI's effect is not uniform, but varies widely among regions. And members of the middle class not only have an above-average level of education, they also frequently live in regions where FDI boosts welfare and, in turn, lowers the incentives of the middle class to engage in protest.

# Appendix

Table 5.2: Descriptive Statistics (Analysis of Public Protest)

| | N | Mean | SD | Min | Max |
|---|---|---|---|---|---|
| Grassroots protest | 417 | 14.39 | 42.08 | 0.00 | 406.00 |
| Economic grassroots protest | 417 | 5.42 | 16.41 | 0.00 | 173.00 |
| Elite-led protest | 417 | 10.92 | 9.80 | 0.00 | 62.00 |
| Wage level (ln) | 641 | –2.79 | 0.92 | –5.65 | –0.38 |
| Personal consumption | 351 | 3.80 | 1.41 | 1.99 | 12.33 |
| Employment share | 351 | 0.47 | 0.06 | 0.19 | 0.59 |
| Regional trade exposure (ln) | 417 | 3.18 | 0.78 | 0.65 | 5.10 |
| Regional FDI exposure (ln) | 417 | 0.64 | 0.57 | 0.00 | 3.55 |
| Secondary education share | 417 | 12.92 | 5.78 | 0.83 | 29.93 |
| Population size | 417 | 1.93 | 1.75 | 0.15 | 11.92 |
| Urban population share | 417 | 71.47 | 11.01 | 27.10 | 100.00 |
| GRP per capita (ln) | 417 | 12.16 | 0.52 | 11.10 | 14.10 |
| GRP growth | 417 | 0.14 | 0.20 | –0.43 | 0.83 |
| Unemployment rate | 417 | 7.10 | 2.57 | 0.80 | 21.70 |
| Newspaper coverage (ln) | 417 | 6.64 | 0.73 | 4.58 | 8.94 |
| Distance to Moscow (ln) | 417 | 6.96 | 1.61 | 0.00 | 9.38 |
| Road density (ln) | 417 | 4.51 | 1.28 | 0.96 | 7.68 |
| Natural resource rents | 417 | 7.19 | 11.79 | 0.00 | 55.70 |
| Press freedom | 417 | 2.06 | 0.66 | 1.00 | 3.00 |
| KPRF mandate share | 417 | 10.20 | 6.04 | 0.00 | 33.00 |

Table 5.3: Impact of FDI on Regional Grassroots Protest

| | *Dependent variable:* Grassroots protest | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Regional FDI exposure | 0.087 | 0.730*** | 0.650*** | 0.579** |
| | (0.10) | (0.24) | (0.24) | (0.24) |
| FDI * education share | | –0.054*** | –0.047** | –0.042** |
| | | (0.02) | (0.02) | (0.02) |
| Regional trade exposure | | | 0.433* | 0.441* |
| | | | (0.24) | (0.25) |
| Trade * education share | | | –0.041** | –0.041** |
| | | | (0.02) | (0.02) |
| Secondary education share | –0.077*** | –0.042** | 0.078 | 0.078 |
| | (0.02) | (0.02) | (0.06) | (0.06) |
| Population size | 0.454*** | 0.470*** | 0.515*** | 0.495*** |
| | (0.07) | (0.07) | (0.07) | (0.07) |
| Urban population | 0.003 | 0.006 | 0.017 | 0.019 |
| | (0.01) | (0.01) | (0.01) | (0.01) |
| GRP per capita | –0.640*** | –0.695*** | –0.699*** | –0.710*** |
| | (0.13) | (0.13) | (0.13) | (0.14) |
| GRP growth | –0.453** | –0.430** | –0.431** | –0.451** |
| | (0.21) | (0.21) | (0.21) | (0.21) |
| Unemployment rate | –0.034 | –0.029 | –0.035 | –0.032 |
| | (0.03) | (0.03) | (0.03) | (0.03) |
| Newspaper coverage | –0.103 | –0.094 | –0.039 | –0.055 |
| | (0.11) | (0.11) | (0.11) | (0.11) |
| Distance to Moscow | 0.217*** | 0.199*** | 0.206*** | 0.183** |
| | (0.08) | (0.08) | (0.08) | (0.08) |
| Road density | –0.169 | –0.186* | –0.177* | –0.108 |
| | (0.10) | (0.11) | (0.11) | (0.11) |
| Natural resources | | | | 0.010 |
| | | | | (0.01) |
| Press freedom | | | | 0.046 |
| | | | | (0.09) |
| KPRF mandate share | | | | –0.020* |
| | | | | (0.01) |
| Constant | 8.369*** | 8.462*** | 5.998*** | 5.977*** |
| | (1.90) | (1.91) | (2.18) | (2.22) |
| # of observations | 417 | 417 | 417 | 417 |
| # of regions | 74 | 74 | 74 | 74 |
| Prob >Chi2 | 0.000 | 0.000 | 0.000 | 0.000 |
| Log likelihood | –1228.20 | –1224.02 | –1221.01 | –1218.31 |
| AIC | 2482.41 | 2476.03 | 2474.02 | 2474.61 |

Negative binomial regression models with regional-level random effects.
Standard errors in parentheses.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

Table 5.4: Impact of FDI on Regional Economic Protest

| | *Dependent variable:* Economic grassroots protest | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Regional FDI exposure | 0.247** | 0.912*** | 0.745** | 0.703** |
| | | (0.30) | (0.30) | (0.31) |
| FDI * education share | | –0.056** | –0.043* | –0.043* |
| | | (0.02) | (0.02) | (0.03) |
| Regional trade exposure | | | 0.655** | 0.656** |
| | | | (0.29) | (0.29) |
| Trade * education share | | | –0.048** | –0.047** |
| | | | (0.02) | (0.02) |
| Secondary education share | –0.071*** | –0.039* | 0.107* | 0.110* |
| | (0.02) | (0.02) | (0.07) | (0.07) |
| Population size | 0.517*** | 0.536*** | 0.565*** | 0.550*** |
| | (0.07) | (0.07) | (0.07) | (0.08) |
| Urban population | –0.001 | 0.002 | 0.010 | 0.011 |
| | (0.01) | (0.01) | (0.01) | (0.01) |
| GRP per capita | –1.095*** | –1.176*** | –1.185*** | –1.313*** |
| | (0.16) | (0.17) | (0.17) | (0.19) |
| GRP growth | –0.611** | –0.595** | –0.575** | –0.639** |
| | (0.27) | (0.27) | (0.27) | (0.27) |
| Unemployment rate | –0.079** | –0.074** | –0.074* | –0.069* |
| | (0.04) | (0.04) | (0.04) | (0.04) |
| Newspaper coverage | –0.043 | –0.036 | 0.041 | 0.062 |
| | (0.13) | (0.13) | (0.14) | (0.14) |
| Distance to Moscow | 0.221** | 0.210** | 0.194** | 0.168* |
| | (0.0*) | (0.09) | (0.09) | (0.09) |
| Road density | –0.275** | –0.295** | –0.313*** | –0.237** |
| | (0.11) | (0.12) | (0.12) | (0.12) |
| Natural resources | | | | 0.023** |
| | | | | (0.01) |
| Press freedom | | | | 0.083 |
| | | | | (0.11) |
| KPRF mandate share | | | | –0.007 |
| | | | | (0.01) |
| Constant | 13.769*** | 14.136*** | 11.267*** | 12.154*** |
| | (2.47) | (2.50) | (2.71) | (2.81) |
| # of observations | 417 | 417 | 417 | 417 |
| # of regions | 74 | 74 | 74 | 74 |
| Prob >Chi2 | 0.000 | 0.000 | 0.000 | 0.000 |
| Log likelihood | –895.62 | –892.80 | –890.10 | –887.23 |
| AIC | 1817.24 | 1813.61 | 1812.20 | 1812.46 |

Negative binomial regression models with regional-level random effects.
Standard errors in parentheses.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

Table 5.5: Impact of FDI on Regional Elite-Led Protest

| | *Dependent variable:* Elite-led protest | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Regional FDI exposure | –0.003 | –0.021 | –0.003 | 0.021 |
| | (0.06) | (0.15) | (0.15) | (0.15) |
| FDI * education share | | 0.001 | 0.000 | –0.002 |
| | | (0.01) | (0.01) | (0.01) |
| Regional trade exposure | | | –0.111 | –0.096 |
| | | | (0.18) | (0.18) |
| Trade * education share | | | 0.006 | 0.005 |
| | | | (0.01) | (0.01) |
| Secondary education share | 0.014 | 0.013 | –0.006 | –0.004 |
| | (0.01) | (0.01) | (0.04) | (0.04) |
| Population size | 0.139*** | 0.139*** | 0.140*** | 0.152*** |
| | (0.04) | (0.04) | (0.04) | (0.04) |
| Urban population | 0.006 | 0.006 | 0.007 | 0.006 |
| | (0.01) | (0.01) | (0.01) | (0.01) |
| GRP per capita | 0.283*** | 0.284*** | 0.287*** | 0.312*** |
| | (0.09) | (0.09) | (0.09) | (0.09) |
| GRP growth | 0.036 | 0.036 | 0.040 | 0.054 |
| | (0.13) | (0.13) | (0.13) | (0.13) |
| Unemployment rate | 0.015 | 0.015 | 0.015 | 0.013 |
| | (0.02) | (0.02) | (0.02) | (0.02) |
| Newspaper coverage | 0.172** | 0.172** | 0.168** | 0.166** |
| | (0.07) | (0.07) | (0.07) | (0.07) |
| Distance to Moscow | 0.124** | 0.124** | 0.132** | 0.145** |
| | (0.06) | (0.06) | (0.06) | (0.06) |
| Road density | 0.210*** | 0.210*** | 0.218*** | 0.178*** |
| | (0.07) | (0.07) | (0.07) | (0.07) |
| Natural resources | | | | –0.008 |
| | | | | (0.01) |
| Press freedom | | | | –0.065 |
| | | | | (0.06) |
| KPRF mandate share | | | | 0.007 |
| | | | | (0.01) |
| Constant | –5.314*** | –5.305*** | –5.062*** | –5.141*** |
| | (1.23) | (1.23) | (1.34) | (1.37) |
| # of observations | 417 | 417 | 417 | 417 |
| # of regions | 74 | 74 | 74 | 74 |
| Prob >Chi2 | 0.000 | 0.000 | 0.000 | 0.000 |
| Log likelihood | –1252.49 | –1252.48 | –1252.28 | –1250.11 |
| AIC | 2530.98 | 2532.96 | 2536.56 | 2538.21 |

Negative binomial regression models with regional-level random effects.
Standard errors in parentheses.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

# Chapter 6

# FDI and Autocratic Regime Survival

How does foreign direct investment affect the survival of autocratic regimes and the prospects for democratization? In this chapter, I examine the main hypothesis of the theoretical argument of this dissertation. FDI not only reallocates resources within the domestic economy, but exhibits sizable effects on political developments in autocracies as well and, thus, affects autocratic regime survival. From the previous chapters we know quite a bit about how FDI affects politics in autocratic regimes on other dimensions. A considerable share of the population is adversely affected and shows signs of economic grievances. The masses voice these grievances in the form of grassroots protests. And even though the masses would in principal prefer regime change and favor democratization, they lack the associational resources to do so. Members of the middle class, on the other hand, are much more satisfied with the incumbent regime and have only few incentives to engage in attempts to challenge autocracy. Moreover, regime elites have the opportunity to fine-tune FDI openness to their advantage.

## 6.1 Observable Implications of the Argument

My argument stresses the role of societal groups to understand autocratic regime survival and breakdown, respectively. Autocratic rule depends on the support of societal actors, especially from the regime elite and the middle

class. For these groups, FDI unfolds both a legitimacy-enhancing as well as a cooptation-enabling effect. If an autocratic regime relies mainly on the support of the regime elite, they gain the necessary political power to shield the most productive sectors from foreign competition. Under these circumstances, multinational corporations face entry barriers, but are nevertheless allowed in a specific subset of domestic sectors. In addition, investment in these sectors creates economic revenues that the regime can use to buy off potentially adversely affected members of the regime elite.

Apart from the regime elite, FDI raises market income and economic well-being for the members of the middle class. This group of actors profits from increasing wages and employments prospects. Material gains tip the balance in favor of supporting the incumbent regime. Attempts to overthrow the incumbent regime become unattractive, because they are costly, their success and outcome is uncertain, and they go along with short-term economic deterioration. Foreign direct investment thus lowers the incentives of either societal group to engage in actions to topple the autocratic regime, for instance via elite coups or popular uprisings. In essence, FDI aligns the interests of the essential members of the support coalition towards supporting the stability of political conditions.

*H6.1: The higher the inflows of foreign direct investment are, the lower is the probability of autocratic regime breakdown, and the longer is the duration of autocratic rule.*

Apart from this general effect, I expect differences between autocratic regimes. These differences hinge on the power concentration within the autocratic support coalition. Power concentration not only implies that the probability of diverging interests among the support coalition is small, but also facilitates regime institutionalization either in the form of regime parties, as far as the elite is concerned, or in the form of civil society organizations, as far as the middle class is concerned. On top of that, power concentration leads to higher inflows of foreign direct investment. Because reneging on preferred policies endangers the regime's hold on power, powerful societal groups additionally serve as an insurance device for international investors. As such, both

the form and the level of FDI openness are tailored towards the dominant societal group, which then is able to reap even higher profits from FDI. In line with this notion, I hypothesize:

*H6.2: The autocracy-stabilizing effect of foreign direct investment is greater, the more power is concentrated in favor of the regime elite or the middle class.*

## 6.2 Research Strategy

This section presents the research design to test these hypotheses with statistical methods. In what follows, I discuss the case selection, present the operationalization of the key variables, and justify the methodological approach to analyze the data.

### 6.2.1 Case Selection and Regime Breakdowns

The universe of cases on which I build my analysis includes all sovereign autocratic regimes. I use a negative definition of autocracy, i.e. regimes that do not fulfill a minimalist and procedural definition of democracy in terms of electoral participation and contestation (Coppedge, 2012; Dahl, 1971; Schumpeter, 1950). Because both dimensions are necessary conditions for democracy, an autocracy is identified if either free and fair elections are not the only means by which political leaders are chosen or only one party is allowed to compete for office. The uninterrupted period in which this is the case is defined as an authoritarian spell (Geddes, Wright, and Frantz, 2014).

The focus on spells alone loses sight of the fact that dictatorships come in very different facets and show very different faces. One possible way to further disentangle spells is to focus on political regimes. A political regime is "a set of basic formal and informal rules for choosing leaders and policies" (Geddes, 1999, 116). Geddes, Wright, and Frantz (2014, 314) identify autocratic breakdowns as instances "when basic rules about the identity of the leadership group change".[1] As can be seen in Figure 6.1, there is tremendous variation within authoritarian spells. About half of all authoritarian spells contain more

[1] In addition, I do not take into account time periods, in which a country was under foreign intervention, warlordism, or a provisional government was in place.

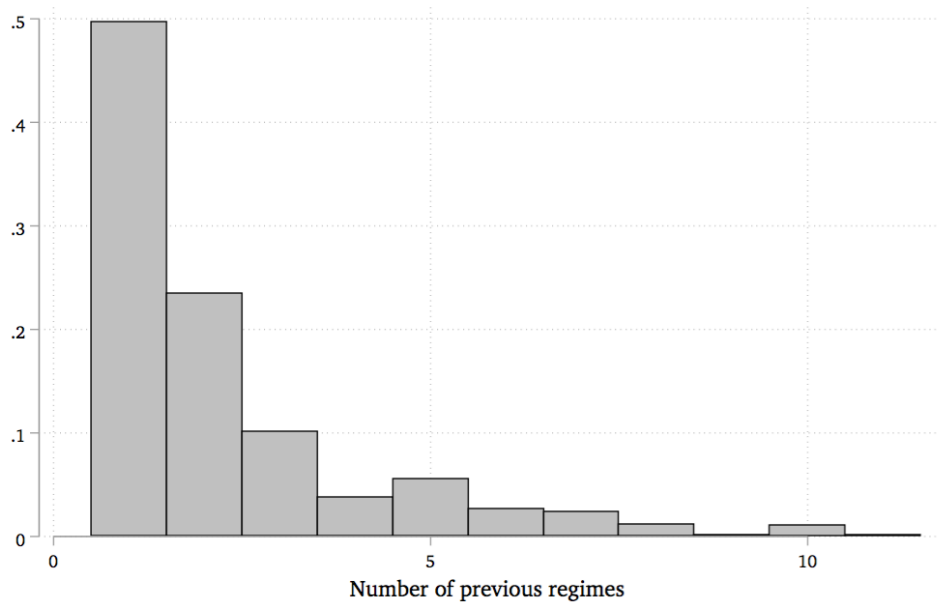



Figure 6.1: Number of Autocratic Regimes per Autocratic Spell

than one autocratic regime and, therefore, have faced at least one autocratic regime breakdown.

To arrive at the final set of cases, I further adapt this sample: First, the period under investigation is 1970 to 2010. Although data on autocratic regimes is generally available since 1946, data on FDI is not. Second, I only include countries with more than one million inhabitants as of 2009, because Geddes, Wright, and Frantz (2014) do not provide data on small countries.[2] Third, autocratic regimes that lasted less than one year are dropped from the sample, because the empirical models used in this study are not able to incorporate them.

The unit of analysis is the autocratic regime-year. I use data from Geddes, Wright, and Frantz (2014) to identify regime breakdowns and the survival time of autocratic regimes. The analysis covers 182 autocratic regimes in 104

[2] There are other datasets that provide data on small countries. However, they either do not conceptualize autocratic regime breakdown in a meaningful way (Cheibub, Gandhi, and Vreeland, 2010) or do not use a clear-cut criterion to distinguish between democracies and autocracies (Wahman, Teorell, and Hadenius, 2013). Dropping small countries from the sample should bias the results against my theoretical argument, since small economies are usually more open to international markets (Katzenstein, 1985).

countries. 127 autocratic breakdowns occurred during the investigation period. 57 autocratic regimes are still in place, i.e. they are right-censored. 74 autocratic regimes in the sample were installed before 1970, i.e. they are left-truncated. To include these into the sample, I have to make two assumptions: First, FDI flows had to be zero before 1970. This assumption is reasonable, given the fact that foreign direct investment only became a prominent feature of international economics beginning in the 1990s. Second, these autocratic regimes should be a random sample of all autocratic regimes that were in place before 1970. This means that they are not characterized by some observable or unobservable factors systematically influencing their probability of survival. Since this assumption is probably violated, I check the robustness of the main models by excluding left-truncated regimes. 16 autocratic regimes are both right-censored as well as left-truncated.

### 6.2.2 Empirical Model

I employ survival models to investigate the impact of foreign direct investment on autocratic regime survival. Survival models take into account both the time until and if an event occurs. The underlying logic is a failure-time process (Box-Steffensmeier and Jones, 2004). Observations enter the study at some natural starting point. In the present case, this is marked by the establishment of an autocratic regime or the year 1970, respectively. Once an observation entered the study, it is at risk of experiencing an event – here, the breakdown of the regime. If the event occurs, the observation leaves the risk set. Thus, the status of an observation is constant until an event occurs, while the covariates influencing the probability of an event are time-variant. Because countries sometimes experience multiple autocratic breakdowns, the instauration of a subsequent autocratic regime after a breakdown constitutes a new observation.

Survival models rest on the assumption that every observation will, for some reason, fail at some point in time, although it may not have failed during the observation period. These right-censored observations do not allow to calculate basic statistical moments, such as the mean, without either making assumptions about the survival time of these observations or deleting them

from the set of units at risk, which would bias the results in favor of more unstable regimes. This is the fundamental rationale for employing survival models instead of logit estimators (Box-Steffensmeier and Jones, 2004). Survival estimates are unbiased if we assume non-informative censoring, i.e. there is no unobserved factor influencing the end of the investigation period. Since the year 2010 is a rather arbitrary threshold, this assumption should hold.

A variety of models fall into the category of survival models. They differ according to the assumptions they make about the nature of the failure-time process. Figure 6.2 compares three different models. The solid line depicts the Kaplan-Meier estimate of the survival curve. Kaplan-Meier estimates are non-parametric and make no assumption about the specific form of the failure-time process, but yield a descriptive picture of the estimate of the survival time of each unit. Because this estimate is non-parametric, no generalizable inferences can be drawn. However, Kaplan-Meier survival curves constitute an important baseline for evaluating parametric survival models.

The assumptions of parametric models – like the exponential or the Weibull model – are reflected in the functional form of the baseline hazard.

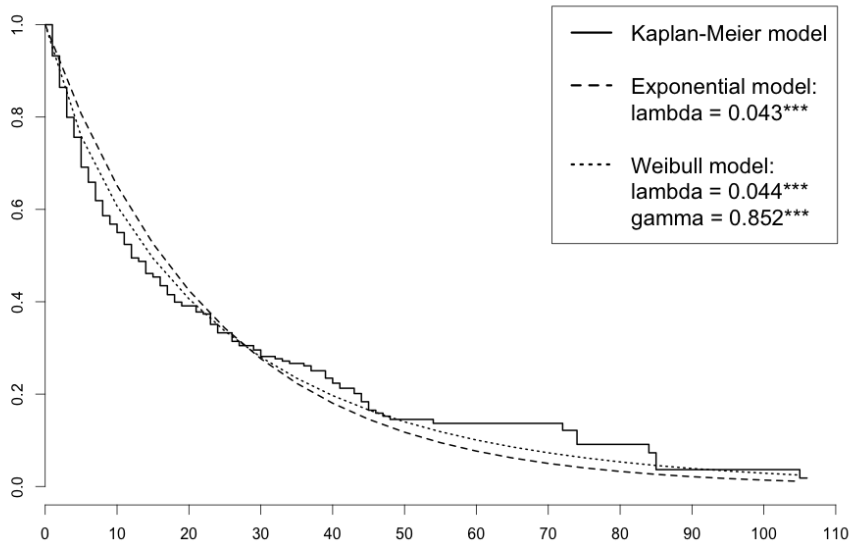



Figure 6.2: Comparison of Survival Models

Yet, models differ with regard to the specific assumption they make about the baseline hazard. The exponential model assumes a constant hazard over time; the Weibull model allows for either constant, increasing, or decreasing hazards. Therefore, the Weibull model estimates two parameters instead of one. Figure 6.2 compares the fit of the exponential and Weibull model to the Kaplan-Meier estimate of the survival curve. The graphical inspection reveals that the Weibull model (dotted line) fits the data better than the exponential model (dashed line). This is also reflected in the statistically significant gamma-term. A gamma estimate smaller than 1 implies decreasing hazards. Hence, the baseline hazard for autocratic regimes to break down decreases with higher duration, which is reasonable as autocratic regimes become more and more institutionalized. But, a look at Figure 6.2 also reveals that the Weibull model does not fit the data very well either. Up to about 30 years it constantly overestimates the survival function, above 30 years it systematically underestimates the Kaplan-Meier survival curve.

Given that the duration dependency of autocratic regimes does not seem to follow one specific form, I employ semi-parametric models in the form of Cox proportional hazard models that leave the specific form of the failure-time process unattended (Box-Steffensmeier and Jones, 2004). In practical terms, this implies that these kinds of models do not need to estimate a baseline hazard. To this effect, Cox proportional hazard models are much more flexible when fitting the data.

It is important to note that the dependent variable in survival models is not whether an event occurs, but rather the time a unit spends in one specific state. The estimates of a Cox model relate directly to the hazard of breakdown obtained from the duration of a unit. I report coefficients, instead of hazard ratios. Positive coefficients imply that a one-unit increase in the covariate increases the probability of an event and, thus, decreases the survival time. Because it is possible that a country experienced several autocratic regimes, I have to control for unobserved heterogeneity. This is usually done by including country fixed effects. However, this is not possible because some countries experienced only one autocratic regime. Instead, I include region fixed effects

that capture regional clustering of autocratic regime breakdown.[3] To check the robustness of this model, I also estimate Cox survival models with shared frailties by world region. In addition, I include decade fixed effects to account for common trends in FDI and autocratic breakdowns. The results are also largely robust to year fixed effects.

### 6.2.3 Independent Variables

My argument implies that exposure to foreign direct investment facilitates autocratic regime survival. I measure this exposure with foreign direct investment inflows, standardized by a country's population size in a given year.[4] Because FDI inflows are right-skewed, I log-transform this variable. One obstacle in this regard is that negative FDI flows, i.e. large-scale divestment, would be omitted. To overcome this caveat, I use the log-transformation proposed by Busse and Hefeker (2007) in Equation 6.1. This approach transforms negative FDI flows and keeps the direction at the same time.

$$lnFDI_{it} = ln\left(FDI_{it} + \sqrt{(FDI_{it}^2 + 1)}\right) \tag{6.1}$$

According to Hypothesis 6.1, more foreign direct investment should increase the duration of autocracies. Combining this with the model specification, I expect FDI inflows to show a negative effect on the hazard of breakdown. In addition, I expect differences between autocratic regimes regarding the effect of foreign direct investment on autocratic regime survival, depending on the power of societal groups in the support coalition (Hypothesis 6.2). I use the societal group power indexes introduced in Chapter 3 to measure autocratic diversity. I model this conditional effect by estimating interaction terms between the power of either the regime elite or the middle class and FDI inflows (Brambor, Clark, and Golder, 2006). Because my argument suggests a reinforcing effect of power concentration in the support coalition, I expect a negative interaction term for both societal groups.

[3] Eastern Europe and post Soviet Union, Latin America, North Africa and Middle East, Sub-Saharan Africa, Western Europe and North Africa, East Asia, South-East Asia, and South Asia.

[4] The results are robust to using FDI stocks or standardizing by a country's level of GDP.

### 6.2.4 Control Variables

In this analysis I employ an empirical selection-on-observables design to estimate the effect of foreign investment on autocratic survival by controlling for possible confounding variables. In order for these variables to be good controls, they have to fulfill two criteria (Angrist and Pischke, 2009): First, they need to be correlated with both the dependent and independent variable. Second, control variables should not be caused by the independent variable, because this induces post-treatment bias. Controlling for post-treatment variables inflates or reduces the effect of the independent variable. The direction of this bias is however not assessable in advance (Gelman and Hill, 2007).

The selection of control variables is based on Pepinsky (2009) who estimates the effect of capital account restrictions on regime survival (data on control variables is taken from Heston, Summers, and Aten (2012), unless indicated otherwise). In the baseline model, I include the size of the population in millions, economic development measured as the level of gross domestic product in billions, and trade openness as another important component of international economic openness.[5] In addition to Pepinsky's (2009) specification, I further control for the start year of the regime and the number of previous regimes (Geddes, Wright, and Frantz, 2014). Both variables are rather technical in nature. The former ensures that autocratic regimes that were established at different points in time are not in the same risk set. This is necessary, because FDI has grown considerably in recent decades, and minimizes the problem of non-stationarity. The latter variable stratifies the hazard rates of autocratic breakdown by the number of previous regimes, because countries that experienced previous regime failures have a higher probability of subsequent regime failure. Additionally, I control for government expenditures as measure for overall financial cooptation, oil production as another source of foreign income (Ross and Mahdavi, 2015), and ethnic fractionalization as an important source of cleavage in autocratic regimes (Alesina et al., 2003) in separate models.

[5] Contrary to Pepinsky (2009), I do not control for the democratic quality of political institutions using Polity IV, because this variable induces post-treatment bias. I also do not control for the age of the regime, because Cox proportional hazard models already take this factor into account.

Extended model specifications also include institutional characteristics proxied by the autocratic regime type. According to Geddes (1999, 2003) autocratic regimes differ, because control over access to power and influence on political decision vary. She distinguishes between three main regime types: party-based, military, and personalist regimes.[6] Figure 6.3 shows the Kaplan-Meier estimate of the survival curves for each autocratic regime type. Institutional features alone seem to explain a great deal of variation. The survival curve of party-based regimes decreases at the slowest rate. Consequently, the median survival time is highest, amounting to 34 years. At the other end of the spectrum are military regimes with a median duration of 6 years. Personalist regimes occupy the middle ground; the median survival time is 14 years. Consequently, this model allows to test whether the combination of foreign direct investment and the power of societal groups makes a difference, even when accounting for broad institutional characteristics of autocratic rule.

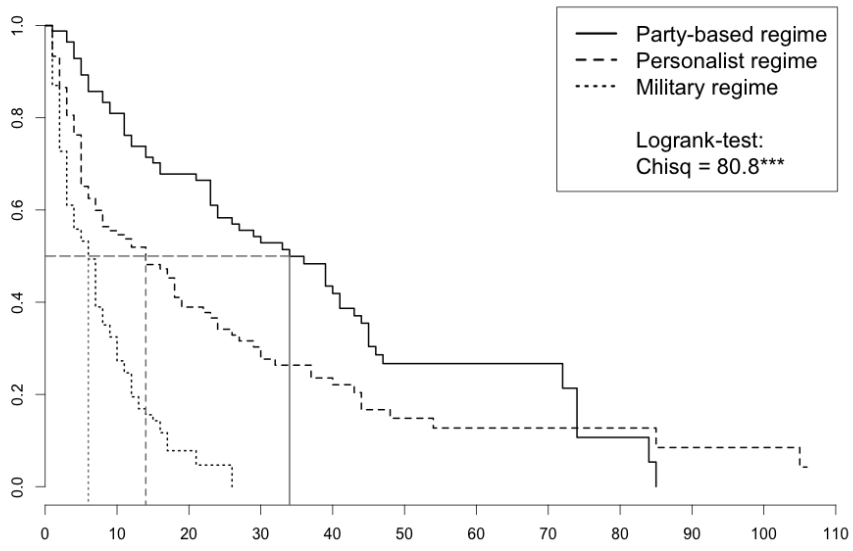



Figure 6.3: Differences in the Durability of Autocratic Regime Types

[6] In the current dataset, she also introduces monarchies, which I collapse with personalist regimes. The main results are robust to including monarchies as a separate regime type. She further distinguishes between several hybrid regime types. I collapse these into the main types in accordance with Roller (2013).

Lastly, I control for the growth of GDP in separate models. Foreign direct investment is likely to contribute to higher growth rates. Controlling for economic growth therefore closes an important channel through which FDI affects autocratic survival.

## 6.3 Empirical Evidence

This section presents the empirical findings obtained from the Cox regression models.[7] I proceed in three steps. First, I present models that estimate the overall effect of foreign direct investment on autocratic regime survival (Hypothesis 6.1). Second, I present models that condition this effect by the the power of societal groups in autocratic regimes to test differences in the impact of FDI (Hypothesis 6.2). Third, I test whether the results from the study of autocratic breakdown also hold for a specific outcome of autocratic breakdown – democratization – and for specific modes of autocratic breakdown – elite coups and popular uprisings.

Table 6.2 presents the first set of models. The dependent variable is the hazard of autocratic regime breakdown. Model 1 shows the baseline specification including the start of the autocratic regime, the number of previous regimes, population size, economic development, and trade openness. Model 2 further includes government expenditures, oil production, and ethnic fractionalization. Model 3 controls for the type of autocratic regime. Across these model specifications, FDI inflows reveal an autocracy-stabilizing effect. The coefficient of FDI inflows is consistently negative and and statistically significant, even though the effect reduces in statistical significance to the 10% level the more control variables are added to the model.[8] Apart from the statistical significance, the effect of FDI is sizable. Across all regime types, a one standard deviation increase in FDI, increases the probability of survival by about 20%. Considering the rise of foreign direct investment in recent decades, this corresponds to a substantial effect that is in line with Hypothesis 6.1 and supports my theoretical argument.

[7] See Table 6.1 for summary statistics of the variables.

[8] I use Schoenfeld residuals to test the proportional hazards assumption. The test did not indicate violations of this assumption.

The effect of FDI on the hazard of autocratic breakdown is substantially smaller and loses statistical significance when controlling for economic growth in model 4. Given that the effect of FDI inflows runs to a large extent through economic growth, this is however not surprising. Growth rates themselves are negatively and statistically significantly correlated with the hazard rate. Much like FDI inflows, economic growth increases the duration of autocratic rule. If we assume that this variable – at least partially – captures the effect of FDI, the substantial interpretation stays the same. The other control variables are mostly insignificant. Model 3, however, highlights differences in the survival rate of autocratic regime types. Compared to party-based regimes, military and personalist regimes exhibit a positive and statistically significant effect on the hazard of experiencing autocratic breakdown. Hence, both regime types are less durable than party-based regimes. This result is in line with the descriptive analysis. In addition, the difference between military and personalist regimes is statistically significant; with the latter having a higher survival time than the former.

The analysis so far shows an autocracy-stabilizing effect of foreign direct investment across the board that is in line with Hypothesis 6.1. Yet, there is one unexpected result. While increasing power of the regime elite prolongs autocratic rule, increasing power of the middle class is consistently conducive to autocratic regime breakdown. To fathom this finding, I test in a second step whether there are differences regarding the effect of FDI, conditional on the power of each societal group. Table 6.3 reports the results from those models.

The interaction between either regime elite power or middle class power and FDI inflows is negative and statistically significant in all models. This implies that FDI unfolds an even stronger autocracy-preserving effect the more influential one societal group is in the autocratic support coalition. Figure 6.4 depicts this effect for both societal groups. The marginal effect of FDI inflows is negative across all levels of societal group power. Yet, FDI only makes a decisive difference when members of the support coalition are sufficiently strong. Importantly, the autocracy-destabilizing effect of the middle class fades away. Hence, the autocracy-destabilizing effect of middle class power is confined to those autocratic regimes that receive only little FDI. As such, in regimes that

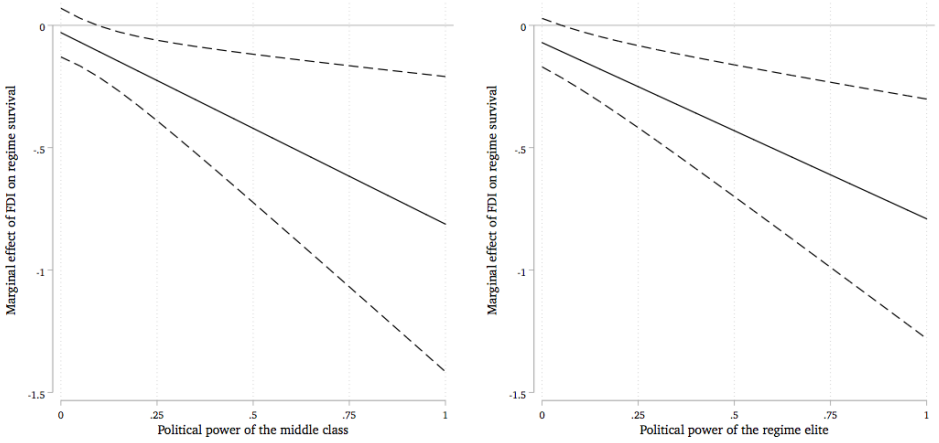



Figure 6.4: Conditional Effect of FDI on Societal Group Power

cannot satisfy the material needs of the middle class by attracting FDI, this group of actors most likely searches for alternatives and engages in attempts to overthrow the incumbent regime. In contrast, if an autocratic regime is highly attractive for multinational corporations, middle class power is conducive to autocratic regime survival.

As for the control variables, the picture is consistent with the unconditional models. Population size, economic development, trade openness, government expenditures, oil production, and ethnic fractionalization do not seem to influence the hazard of autocratic breakdown. Once again, party-based regimes are more durable than military or personalist regimes. Furthermore, economic growth facilitates a dictator's hold on power.

Taken together, the empirical analysis suggests an autocracy-stabilizing effect of FDI. This effect is especially pronounced in autocratic regimes where the power of one societal group concentrates. In the last step of this analysis, I show that these effects also hold for specific subsets of autocratic regime breakdowns. The models in Table 6.4 focus on those breakdowns that led to democracy, as opposed to a subsequent autocratic regime. Again, the results point to a autocracy-stabilizing effect of FDI. Increasing FDI exposure does make autocratic breakdown that induces democratization less likely. Yet, the models also suggest that the power of societal groups does not reinforce this

effect. The interaction between FDI and either regime elite or middle class power are negative, but not statistically significant. Because the mediating effect of FDI does not materialize, this finding is consequential for the effect of middle class power. If the middle class chooses to topple the incumbent autocratic regime, the likely outcome is democracy. Nevertheless, these results do not lend credence to theoretical arguments postulating that increasing internationalization and political democracy go hand in hand.

In Table 6.5, I analyze the impact of FDI inflows on two specific forms of autocratic breakdown, elite coups and popular uprisings. The results show the familiar picture. Although foreign direct investment does not affect the occurrence of successful elite coups across the board, it decreases the incentives of the regime elite to act against the autocratic regime, provided that this group of actors has sufficient decision-making influence. With regard to successful popular uprisings, I find that increasing FDI openness makes attempts to overthrow autocracy similarly less likely.

All in all, the analyses in this section support my hypothesis that foreign direct investment helps autocratic regimes to survive. The autocracy-stabilizing effect is even stronger in regimes where the power of societal groups in the autocratic support coalition concentrates. Moreover, FDI does not only deter autocratic breakdown in general, but reduces the probability of elite coups and popular uprisings; and hinders democracy.

## 6.4 Endogeneity and Instrumental Variables

The results presented so far suffer from one important shortcoming. Multinational investors might anticipate autocratic breakdown and, as a consequence, divest. Under such circumstances, the withdrawal of foreign capital would not cause autocratic breakdown in itself, but merely accelerate the process. Similarly, as foreign investors capitalize on political stability, they self-select into politically more stable autocracies. Even though the interaction between societal group power and FDI inflows captures this possibility to some extent, the autocracy-stabilizing effect of FDI may still be biased. To show that my results are robust to these concerns, I employ an instrumental variables approach.

A valid instrument for FDI needs to be exogenous to political developments within the autocratic regime (Angrist and Pischke, 2009). I argue that foreign policy alignment between countries is an important factor for the investment decisions of multinational corporations. Closer alignment with democracies increases the reputation of an autocracy as a reliable host country. Furthermore, good political relations on the international level form an insurance device for foreign investors in case of investment disputes. Changes in foreign policy alignment between countries should, therefore, be associated with changes in the probability that investors from one country invest in another. Based on Rommel and Schaudt (2017), I argue that a major reorientation of foreign policy occurs most frequently if the political leadership in either country changes. Leadership turnover opens the door for large-scale policy re-alignment, since the pursuit of foreign policy objectives is usually characterized as the executive branch's prerogative. Both internal constraints imposed by the domestic support group loosen (Mattes, Leeds, and Carroll, 2015) and personal relationships between country leaders change (Dreher and Jensen, 2013). Thus, changes in political leadership constitute predetermined breaking points for a country's foreign policy agenda, especially if a newly elected leader of an economically and politically powerful country comes into power. Under such circumstances, autocracies face an external shock emanating from one-sided position changes, to which they cannot adapt immediately.[9]

Hence, I use the conditional foreign policy alignment after leadership turnover in home countries to predict foreign direct investment inflows into autocratic host countries. The identifying variation stems from changes in foreign policy alignment between economically and politically powerful democracies and autocratic regimes and is only due to leadership turnover in democracies. This variation is exogenous to any developments within autocracies, because both the timing of elections and the probability of leadership turnover in democracies are subject to developments in these countries alone. The exclusion restriction of this instrument might not hold, unfortunately. On the

[9] See, Rommel and Schaudt (2017) for an empirical application of this argument to the case of development aid.

one hand, the same identifying variation could affect other types of capital flows – such as development aid – that, in turn, induce similar patterns like foreign direct investment. On the other hand, rapid changes in foreign policy alignment could similarly alter the probability of democracies to actively interfere with domestic politics of autocratic regimes – for example, through interventions. Despite these concerns, I argue that this instrumental variables approach is able to mitigate the selection effect of foreign investors with respect to pre-existing political turmoil or stability, since it mutes the channel that connects political developments within autocracies with the decision to invest. Furthermore, I control for other sources of foreign policy dependent capital to close this channel.

The dependent variable of the first stage regression are bilateral foreign investment outflows from each G7 country[10] to each autocratic regime between 1985 and 2010.[11] Similarly to Rommel and Schaudt (2017), I use data from the updated Archigos dataset (Goemans, Gleditsch, and Chiozza, 2009) to identify the heads of executive of the G7 countries. I code a change in leadership if the leader of country $i$ in year $t$ differs from the leader of country $i$ in year $t-1$. If several leaders had been in power in a country in a given year, I focus on the leader that has spent the highest fraction of days in office during that year, assuming that more days in office increase the probability to shape foreign policy in a given year. To proxy foreign policy alignment between countries, I use voting alignment in the United Nations General Assembly (UNGA). Votes in the UNGA cover a wide array of issues and a "record of how the state wants to be seen by others, the international norms it finds acceptable, and the positions it is willing to take publicly" (Mattes, Leeds, and Carroll, 2015, 283). I operationalize foreign policy realignment as the difference in the percentage of common yes and no votes (Thacker, 1999; Faye and Niehaus, 2012) any two countries in one administration dyad vote in line with each other between $t-1$ and $t$. The data is provided by Voeten (2013). Most importantly, I employ an interaction term between leadership turnover in G7 countries and foreign policy realignment (Brambor, Clark, and Golder, 2006).

[10] Canada, France, Germany, Great Britain, Italy, Japan, and the United States.
[11] Unfortunately, the OECD (2016) provides bilateral FDI flows only from 1985 onwards.

In the empirical model (see also, Rommel and Schaudt, 2017), I regress FDI outflows at time $t$ of each G7 country $g$ to host autocracy $h$ on G7 leader change and the foreign policy signal (see Equation 6.2). The coefficient of interest is the interaction between the G7 leader change and foreign policy realignment, i.e. the corresponding change in voting alignment in the UNGA from $t-1$ (the year of the last leader in a G7 country) to $t$ (the first year of the newly elected leader in a G7 country). I expect a positive and statistically significant interaction effect of $\theta$ implying that positive signals following a change in leadership increase FDI flows, while negative signals decrease FDI flows. $\phi$ controls for past mean alignment of the previous administration dyad, to capture the overall relations between the two countries. $\alpha_{gh}$ are home-host-country fixed effects capturing unobserved time-invariant heterogeneity for each country dyad. In addition, $\gamma_t$ are year fixed effects to control for any global shocks that simultaneously affect alignment, leader change and FDI outflows across all countries. All variables are lagged by one year.

$$FDI_{ght} = \beta \cdot G7change_{gt} + \delta \cdot signal_{ght} + \theta \cdot G7change_{gt} \cdot signal_{ght} + \phi \cdot meanalignment_{gh} + \alpha_{gh} + \gamma_t + \epsilon_{ght} \tag{6.2}$$

In a next step, I use the results from this stage to obtain the model-based predictions of FDI outflows from the G7 countries. To arrive at an instrumented estimate of FDI inflows into autocratic countries, I sum up the predicted values over all G7 countries. Note that these FDI inflows are not only exogenous, but also originate from democratic countries only. In general, this procedure should therefore bias against finding an autocracy-stabilizing effect of FDI. In the second stage regression, I use these estimates to reestimate the Cox proportional hazard models from Table 6.2 and 6.3.

The results are reported in Table 6.6. Column 1 shows the results from the first stage regression. Leadership turnover and foreign policy signaling do not exhibit a statistically significant effect on the amount of FDI outflows from large democracies into autocracies. Importantly, the interaction term between these variables $\theta$ is positive and statistically significant. Leader change in one of the G7 democracies that exogenously shifts foreign policy alignment towards a higher level of accordance increases FDI flows from the respective G7

country; political hardship decreases the amount of money provided by multinational companies from the respective democracy. The instrument, thus, has power to explain FDI outflows.

Columns 2 and 3 show the second stage regressions. As expected, the coefficient of the predicted FDI inflows is negative implying that foreign direct investment increases the chances of autocratic survival. It is statistically significant across all regimes, and when interacted with societal group power. Nevertheless, power concentration within the support coalition does not intensify the effect of FDI. Given that my instrumental variables design should mitigate the effect of the domestic structure of autocratic rule, this strengthens the results, however. Importantly, both models control for development aid, which is the most prevalent factor that threatens the exclusion restriction. Even more than in case of firm decisions, foreign policy realignment might change development strategies, since they constitute actual foreign policy decisions (Rommel and Schaudt, 2017). In light of this, foreign aid is both an additional source of non-tax resources for autocratic countries, which might help them to stay in power (Morrison, 2009), as well as a widely used foreign policy instrument. Controlling for foreign aid closes the effect of other channels that connect foreign policy realignment emanating from leader changes in the G7 countries and autocratic regime survival. Importantly, the autocracy-preserving effect of FDI comes about, even when controlling for foreign aid.

Summing up, the findings from this instrumental variables approach are in line with the results obtained from the simple survival models in the previous section. Both analyses lend support to the main hypothesis of this dissertation: foreign direct investment impedes autocratic regime breakdown and prolongs autocratic rule.

# Appendix

Table 6.1: Descriptive Statistics (Analysis of Autocratic Breakdown)

| | N | Mean | SD | Min | Max |
|---|---|---|---|---|---|
| Autocratic breakdown | 2570 | 0.05 | 0.22 | 0.00 | 1.00 |
| Democratization | 2570 | 0.03 | 0.16 | 0.00 | 1.00 |
| Elite coup | 2570 | 0.02 | 0.13 | 0.00 | 1.00 |
| Popular uprising | 2570 | 0.03 | 0.16 | 0.00 | 1.00 |
| FDI inflows (ln) | 2570 | 2.07 | 2.25 | –6.99 | 7.99 |
| Middle class power | 2570 | 0.51 | 0.16 | 0.03 | 0.88 |
| Regime elite power | 2570 | 0.55 | 0.14 | 0.20 | 0.85 |
| Start year of regime | 2570 | 1969 | 18 | 1889 | 2008 |
| # of previous regimes | 2570 | 2.63 | 2.05 | 1.00 | 11.00 |
| Population size | 2570 | 35.07 | 131.95 | 0.43 | 1333.81 |
| Economic development | 2570 | 100.87 | 523.22 | 0.00 | 5684.22 |
| Trade openness | 2570 | 62.97 | 38.18 | 3.59 | 354.11 |
| Government expenditures | 2548 | 13.63 | 73.25 | 0.00 | 728.74 |
| Oil production | 2556 | 21.07 | 62.15 | 0.00 | 496.00 |
| Ethnic fractionalization | 2503 | 0.55 | 0.26 | 0.00 | 0.93 |
| Party-based autocracy | 2570 | 0.45 | 0.50 | 0.00 | 1.00 |
| Military autocracy | 2570 | 0.15 | 0.36 | 0.00 | 1.00 |
| Personalist autocracy | 2570 | 0.40 | 0.49 | 0.00 | 1.00 |
| Economic growth | 2327 | 4.22 | 6.76 | –64.05 | 57.82 |

Table 6.2: Effect of FDI on Autocratic Regime Breakdown

| | Hazard of autocratic breakdown | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| FDI inflows (per capita) | –0.092** | –0.090* | –0.092* | –0.056 |
| | (0.05) | (0.05) | (0.05) | (0.06) |
| Middle class power | 9.071** | 8.100** | 8.872** | 9.253*** |
| | (3.59) | (3.87) | (3.94) | (3.25) |
| Regime elite power | –7.819*** | –8.084*** | –6.635*** | –5.854** |
| | (2.27) | (2.48) | (2.54) | (2.32) |
| Start year of regime | 0.099*** | 0.101*** | 0.091*** | 0.092*** |
| | (0.02) | (0.02) | (0.02) | (0.03) |
| # of previous regimes | 0.079* | 0.070 | 0.040 | 0.045 |
| | (0.04) | (0.04) | (0.05) | (0.05) |
| Population size | –0.002 | –0.001 | –0.001 | –0.000 |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Economic development | 0.000 | –0.000 | –0.000 | –0.000 |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Trade openness | 0.000 | 0.001 | 0.001 | 0.002 |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Government expenditures | | 0.003 | 0.003 | 0.002 |
| | | (0.00) | (0.00) | (0.00) |
| Oil production | | –0.003 | –0.003 | –0.003 |
| | | (0.01) | (0.00) | (0.00) |
| Ethnic fractionalization | | 0.376 | 0.461 | 0.458 |
| | | (0.47) | (0.51) | (0.55) |
| Party-based autocracy | | | baseline | |
| Military autocracy | | | 1.094*** | 1.120*** |
| | | | (0.31) | (0.35) |
| Personalist autocracy | | | 0.378* | 0.283 |
| | | | (0.21) | (0.23) |
| Economic growth | | | | –0.052*** |
| | | | | (0.01) |
| # of observations | 2570 | 2480 | 2480 | 2294 |
| # of autocratic regimes | 182 | 177 | 177 | 162 |
| # of breakdowns | 127 | 123 | 123 | 110 |
| Prob > Chi2 | 0.000 | 0.000 | 0.000 | 0.000 |
| Log-Likelihood | –465.62 | –448.78 | –442.92 | –381.61 |
| Decade fixed effects | Yes | Yes | Yes | Yes |

Cox proportional hazard models with world region fixed effects.
Standard errors (in parentheses) are clustered by world region.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

Table 6.3: Conditional Effect of FDI on Autocratic Regime Breakdown

| | Hazard of autocratic breakdown | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| FDI inflows (per capita) | –0.171 | –0.177 | –0.162 | –0.060 |
| | (0.13) | (0.13) | (0.13) | (0.14) |
| FDI * middle class | –9.372** | –8.340* | –8.933** | –10.427*** |
| | (4.10) | (4.33) | (4.40) | (3.09) |
| FDI * regime elite | –9.639*** | –9.310*** | –9.585*** | –8.932*** |
| | (3.30) | (3.40) | (3.22) | (2.82) |
| Middle class power | 13.448*** | 11.758** | 12.987** | 15.987*** |
| | (4.46) | (4.94) | (5.35) | (3.34) |
| Regime elite power | –3.226 | –3.584 | –1.983 | –0.983 |
| | (2.54) | (2.64) | (2.59) | (2.29) |
| Start year of regime | 0.094*** | 0.098*** | 0.087*** | 0.089*** |
| | (0.02) | (0.02) | (0.02) | (0.02) |
| # of previous regimes | 0.086** | 0.077 | 0.047 | 0.063 |
| | (0.04) | (0.05) | (0.05) | (0.05) |
| Population size | –0.002 | –0.001 | –0.002 | –0.001 |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Economic development | 0.000 | –0.000 | –0.000 | –0.000 |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Trade openness | –0.001 | –0.000 | 0.000 | 0.000 |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Government expenditures | | 0.004 | 0.003 | 0.003* |
| | | (0.00) | (0.00) | (0.00) |
| Oil production | | –0.004 | –0.004 | –0.003 |
| | | (0.01) | (0.00) | (0.00) |
| Ethnic fractionalization | | 0.300 | 0.386 | 0.338 |
| | | (0.46) | (0.49) | (0.53) |
| Party-based autocracy | | | baseline | |
| Military autocracy | | | 1.133*** | 1.118*** |
| | | | (0.32) | (0.38) |
| Personalist autocracy | | | 0.441** | 0.290 |
| | | | (0.20) | (0.22) |
| Economic growth | | | | –0.046*** |
| | | | | (0.01) |
| # of observations | 2570 | 2480 | 2480 | 2294 |
| # of autocratic regimes | 182 | 177 | 177 | 162 |
| # of breakdowns | 127 | 123 | 123 | 110 |
| Prob > Chi2 | 0.000 | 0.000 | 0.000 | 0.000 |
| Log-Likelihood | –460.52 | –444.37 | –438.21 | –376.69 |
| Decade fixed effects | Yes | Yes | Yes | Yes |

Cox proportional hazard models with world region fixed effects.
Standard errors (in parentheses) are clustered by world region.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

Table 6.4: Effect of FDI on Democratization

| | Hazard of democratization | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| FDI inflows (per capita) | –0.089* | –0.117* | –0.099* | –0.108* |
| | (0.05) | (0.07) | (0.06) | (0.06) |
| FDI * middle class | | –0.058 | | –1.148 |
| | | (2.27) | | (2.33) |
| FDI * regime elite | | –1.136 | | –1.608 |
| | | (2.11) | | (2.16) |
| Middle class power | 14.516*** | 14.259*** | 15.453*** | 16.997*** |
| | (3.41) | (4.31) | (3.56) | (4.78) |
| Regime elite power | –10.600*** | –8.773* | –8.055*** | –5.513 |
| | (2.25) | (4.52) | (2.27) | (4.26) |
| Start year of regime | 0.160*** | 0.161*** | 0.149*** | 0.147*** |
| | (0.04) | (0.05) | (0.05) | (0.05) |
| # of previous regimes | 0.141** | 0.128** | 0.122* | 0.111 |
| | (0.06) | (0.06) | (0.07) | (0.08) |
| Population size | 0.001 | 0.001 | 0.001 | 0.001 |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Economic development | 0.000 | 0.000 | 0.001 | 0.001 |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Trade openness | 0.001 | 0.001 | 0.000 | –0.000 |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Government expenditures | –0.001 | –0.002 | –0.006 | –0.007 |
| | (0.01) | (0.01) | (0.01) | (0.02) |
| Oil production | –0.012 | –0.013 | –0.012 | –0.012 |
| | (0.02) | (0.02) | (0.01) | (0.01) |
| Ethnic fractionalization | –0.523 | –0.449 | –0.228 | –0.205 |
| | (0.51) | (0.51) | (0.56) | (0.56) |
| Party-based autocracy | | | baseline | |
| Military autocracy | | | 1.784*** | 1.845*** |
| | | | (0.49) | (0.48) |
| Personalist autocracy | | | 0.343 | 0.442 |
| | | | (0.38) | (0.39) |
| # of observations | 2480 | 2480 | 2480 | 2480 |
| # of autocratic regimes | 177 | 177 | 177 | 177 |
| # of breakdowns | 65 | 65 | 65 | 65 |
| Prob > Chi2 | 0.000 | 0.000 | 0.000 | 0.000 |
| Log-Likelihood | –181.66 | –181.29 | –173.50 | –173.17 |
| Decade fixed effects | Yes | Yes | Yes | Yes |

Cox proportional hazard models with world region fixed effects.
Standard errors (in parentheses) are clustered by world region.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

Table 6.5: Effect of FDI on Coups and Uprisings

| | Hazard of elite coup | | Hazard of popular uprising | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| FDI inflows (per capita) | 0.047 | 0.080 | –0.274** | –0.292** |
| | (0.14) | (0.16) | (0.12) | (0.13) |
| FDI * middle class | | –14.972** | | –1.066 |
| | | (7.24) | | (7.48) |
| FDI * regime elite | | –12.509* | | –1.655 |
| | | (7.45) | | (5.73) |
| Middle class power | 13.035* | 20.822*** | 15.051*** | 15.324*** |
| | (7.29) | (6.40) | (3.30) | (4.20) |
| Regime elite power | 13.554 | 23.412* | –11.625*** | –10.912*** |
| | (13.32) | (13.35) | (2.41) | (3.44) |
| Start year of regime | 0.077*** | 0.084*** | 0.150*** | 0.149*** |
| | (0.02) | (0.02) | (0.04) | (0.04) |
| # of previous regimes | 0.070 | 0.082 | 0.083 | 0.083 |
| | (0.07) | (0.07) | (0.06) | (0.06) |
| Population size | –0.002 | –0.003 | 0.001 | 0.001 |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Economic development | 0.001 | 0.002 | –0.001** | –0.001 |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Trade openness | 0.001 | 0.001 | 0.003 | 0.002 |
| | (0.00) | (0.01) | (0.00) | (0.00) |
| Government expenditures | –0.052 | –0.063 | 0.007* | 0.007* |
| | (0.04) | (0.05) | (0.00) | (0.00) |
| Oil production | –0.000 | –0.001 | –0.010 | –0.010 |
| | (0.01) | (0.01) | (0.01) | (0.01) |
| Ethnic fractionalization | 0.770 | 0.593 | –0.258 | –0.269 |
| | (0.98) | (0.90) | (0.57) | (0.57) |
| # of observations | 2480 | 2480 | 2480 | 2480 |
| # of autocratic regimes | 177 | 177 | 177 | 177 |
| # of breakdowns | 41 | 41 | 63 | 63 |
| Prob > Chi2 | 0.000 | 0.000 | 0.000 | 0.000 |
| Log-Likelihood | –154.26 | –149.59 | –191.01 | –190.94 |
| Decade fixed effects | Yes | Yes | Yes | Yes |

Cox proportional hazard models with world region fixed effects.
Standard errors (in parentheses) are clustered by world region.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

Table 6.6: Instrumental Variables Approach

| | 1st: FDI outflows | 2nd: Hazard of autocratic breakdown | |
|---|---|---|---|
| | (1) | (2) | (3) |
| G7 leader change | –0.062 | | |
| | (0.04) | | |
| UNGA voting alignment | 0.157 | | |
| | (0.19) | | |
| Change * alignment | 1.047** | | |
| | (0.50) | | |
| Mean voting alignment | –0.695 | | |
| | (0.57) | | |
| Predicted FDI inflows | | –0.111*** | –0.126*** |
| | | (0.04) | (0.05) |
| FDI * middle class | | | 0.167 |
| | | | (0.60) |
| FDI * regime elite | | | –1.103 |
| | | | (1.05) |
| Middle class power | | 15.461*** | 15.163*** |
| | | (3.24) | (3.28) |
| Regime elite power | | –3.922 | –3.577 |
| | | (3.14) | (3.16) |
| Development aid | | 0.033 | 0.036 |
| | | (0.11) | (0.11) |
| Start year of regime | | 0.101 | 0.092 |
| | | (0.07) | (0.07) |
| # of previous regimes | | 0.038 | 0.037 |
| | | (0.07) | (0.07) |
| log GDP (in bn) | | –0.113 | –0.122 |
| | | (0.14) | (0.15) |
| log Population (in mil) | | 0.129 | 0.124 |
| | | (0.16) | (0.16) |
| Population size | | 0.001 | 0.001 |
| | | (0.00) | (0.00) |
| Economic development | | 0.001 | –0.000 |
| | | (0.00) | (0.00) |
| Trade openness | | 0.002 | 0.002 |
| | | (0.00) | (0.00) |
| Government expenditures | | –0.007 | 0.001 |
| | | (0.01) | (0.01) |
| Oil production | | –0.012 | –0.012 |
| | | (0.01) | (0.01) |
| Ethnic fractionalization | | 0.223 | 0.203 |
| | | (0.67) | (0.65) |
| Party-based autocracy | | baseline | |
| Military autocracy | | 1.423*** | 1.397*** |
| | | (0.41) | (0.41) |
| Personalist autocracy | | 0.455 | 0.472 |
| | | (0.32) | (0.32) |
| # observations | 5424 | 1450 | 1450 |
| # dyads | 423 | | |
| Prob > F | 0.000 | | |
| Dyad + year FE | Yes | | |
| # autocratic regimes | | 121 | 121 |
| # of breakdowns | | 73 | 73 |
| Prob > Chi2 | | 0.000 | 0.000 |
| Log-Likelihood | | –202.44 | –201.65 |
| Decade FE | | Yes | Yes |

Cox proportional hazard models with world region fixed effects.
Standard errors (in parentheses) are clustered by world region.
Significance levels: *** p<0.01, ** p<0.05, * p<0.1.

Table 6.7: List of Autocratic Regimes

Afghanistan 29-73
Afghanistan 73-78
Afghanistan 78-92
Afghanistan 96-01
Algeria 62-92
Algeria 92-NA
Angola 75-NA
Argentina 66-73
Argentina 76-83
Armenia 94-98
Armenia 98-NA
Azerbaijan 93-NA
Bangladesh 71-75
Bangladesh 75-82
Bangladesh 82-90
Belarus 91-94
Belarus 94-NA
Benin 69-70
Benin 72-90
Bolivia 69-71
Bolivia 71-79
Bolivia 80-82
Botswana 66-NA
Brazil 64-85
Bulgaria 44-90
Burkina Faso 66-80
Burkina Faso 80-82
Burkina Faso 82-87
Burkina Faso 87-NA
Burundi 66-87
Burundi 87-93
Burundi 96-03
Cambodia 70-75
Cambodia 79-NA
Cameroon 60-83
Cameroon 83-NA
Central African Rep 03-NA
Central African Rep 65-79
Central African Rep 79-81
Central African Rep 81-93
Chad 60-75
Chad 75-79
Chad 82-90
Chad 90-NA
Chile 73-89
China 49-NA
Congo-Brazzaville 97-NA
Congo-Brazzaville 68-91
Congo-Kinshasa 60-97
Congo-Kinshasa 97-NA
Dominican Republic 66-78
Ecuador 70-72
Ecuador 72-79
Egypt 52-NA
El Salvador 48-82
El Salvador 82-94
Eritrea 93-NA
Ethiopia 1889-1974
Ethiopia 74-91
Ethiopia 91-NA
Gabon 60-NA
Gambia 65-94
Gambia 94-NA
Georgia 92-03
Ghana 72-79
Ghana 81-00
Greece 67-74
Guatemala 66-70
Guatemala 70-85
Guatemala 85-95
Guinea 08-10
Guinea 58-84
Guinea 84-08
Guinea Bissau 74-80
Guinea Bissau 80-99
Haiti 57-86
Haiti 86-88
Haiti 88-90
Haiti 91-94
Haiti 99-04
Honduras 63-71
Honduras 72-81
Hungary 47-90
Indonesia 66-99
Iran 25-79
Iran 79-NA
Iraq 68-79
Iraq 79-03
Ivory Coast 00-NA
Ivory Coast 60-99
Ivory Coast 99-00
Jordan 46-NA
Kazakhstan 91-NA
Kenya 63-02
Korea, North 48-NA
Korea, South 61-87
Kyrgyzstan 05-10
Kyrgyzstan 91-05
Laos 75-NA
Lesotho 70-86
Lesotho 86-93
Liberia 44-80
Liberia 80-90
Liberia 97-03
Libya 69-NA
Madagascar 60-72
Madagascar 72-75
Madagascar 75-93
Malawi 64-94
Malaysia 57-NA
Mali 68-91
Mauritania 05-07
Mauritania 08-NA
Mauritania 60-78
Mauritania 78-05
Mexico 15-00
Mongolia 21-93
Morocco 56-NA
Mozambique 75-NA
Myanmar 62-88
Myanmar 88-NA
Namibia 90-NA
Nepal 02-06
Nepal 51-91
Nicaragua 36-79
Nicaragua 79-90
Niger 60-74
Niger 74-91
Niger 96-99
Nigeria 66-79
Nigeria 83-93
Nigeria 93-99
Pakistan 58-71
Pakistan 75-77
Pakistan 77-88
Pakistan 99-08
Panama 68-82
Panama 82-89
Paraguay 54-93
Peru 68-80
Peru 92-00
Philippines 72-86
Poland 44-89
Portugal 26-74
Russia 93-NA
Rwanda 62-73
Rwanda 73-94
Rwanda 94-NA
Saudi Arabia 27-NA
Senegal 60-00
Serbia 91-00
Sierra Leone 68-92
Sierra Leone 92-96
Somalia 69-91
South Africa 10-94
Spain 39-76
Sri Lanka 78-94
Sudan 69-85
Sudan 85-86
Sudan 89-NA
Swaziland 68-NA
Syria 63-NA
Tajikistan 91-NA
Tanzania 64-NA
Thailand 57-73
Thailand 76-88
Togo 67-NA
Tunisia 56-NA
Turkey 80-83
Turkmenistan 91-NA
Uganda 66-71
Uganda 71-79
Uganda 80-85
Uganda 86-NA
Uruguay 73-84
Uzbekistan 91-NA
Venezuela 05-NA
Vietnam 54-NA
Yemen 78-NA
Zambia 67-91
Zambia 96-NA
Zimbabwe 80-NA

# Chapter 7

# Conclusion

This dissertation has investigated autocratic politics in times of economic globalization. I have argued theoretically and demonstrated empirically that foreign direct investment – as of now, the most important component of economic globalization – bolsters autocratic rule and hinders democratization. Autocratic rule is constantly contested and rests on support by societal groups. FDI helps to coopt the regime elite and, at the same time, intensifies the belief of the middle class in the legitimacy of autocratic rule. Because both societal groups see no reason to act against the incumbent regime on material grounds, FDI weakens pressures for regime change among the essential members of the autocratic support coalition. In essence, autocratic regimes are less likely to experience elite coups and popular uprisings and are, thus, more likely to maintain power.

This argument runs counter to the widely held belief that integration into the global economy reinforces pressure for democracy. Because my argument departs from previous work, which links international developments with domestic politics in autocracies, I substantiate it with a detailed and comprehensive analysis of its mechanism. Each of the empirical chapters addressed one of the following research questions:

1. Why and how much do autocracies liberalize FDI?
2. How does openness to FDI affect individuals in autocracies materially and does it shape citizen support for autocratic rule?

3. Do FDI-induced demands and grievances translate into politics via popular protest?
4. How does FDI affect the survival of autocratic regimes and the prospects for democratization?

## 7.1 Summary of Findings and Implications

My findings suggest that foreign direct investment matters a great deal for politics in autocracies. FDI has not only become the new pacemaker of economic globalization, but portrays sizable and lasting political consequences.

Chapter 3 investigated the domestic sources of FDI openness. FDI does not appear from nowhere; multinational corporations need permission to transfer capital into countries. I have argued that autocratic regimes hardly succumb automatically to general trends regarding economic liberalization. They consciously choose the level and form of exposure to FDI. Because the essential members of the autocratic support coalition hold opposing views with regard to FDI openness, the domestic regulatory regime for international investment hinges on the relative political power of the regime elite and the middle class. I demonstrated empirically that as the power of the regime elite increases, so do entry restrictions for multinational corporations. In contrast, the more an autocratic regime is dependent on the middle class, the laxer are domestic barriers for foreign companies. As such, FDI openness serves as an essential tool to satisfy the material needs of the support coalition.

Chapter 4 turned to the individual level and scrutinized how FDI openness affects mass attitudes in autocracies. In combining economic models of multinational production and newest advances in trade theory, I argued that the impact of FDI on material well-being is more heterogeneous than previously assumed. FDI heightens economic insecurity for poorly educated citizens, but boosts wages among well-educated members of the autocratic society. The empirical studies showed that changes in individual well-being are indeed contingent on both individual skill-level and exposure to FDI. More importantly, the material consequences of FDI translate into political preferences and demands. While highly aggrieved individuals call for democratization,

the beneficiaries of FDI develop beliefs in the legitimacy of autocratic rule. As a consequence, the members of the middle class hold a much more favorable view of the incumbent regime than the disenfranchised masses.

Chapter 5 has built on joint work with Tabea Palmtag and Stefanie Walter (see, Palmtag, Rommel, and Walter, 2018) and examined political reactions due to FDI inflows. While a significant part of the population in autocracies does not profit from the entry of multinational investors, they cannot express their demands at the ballot box. Because elections are ineffective and frequently tampered with, we argued that individuals that are adversely affected by FDI engage in protest events. Nonetheless, motives are not sufficient for actual participation; it is necessary to take developments on the regional level into account. Individuals make their demands visible, but only where there are many similarly aggrieved individuals. Focusing on protest behavior in the Russian Federation, we have found that grassroots protests are more frequent in regions where a low-skilled workforce faces substantial inflows of FDI, compared to regions that are similarly exposed but have more educated populations. As such, grievances indeed provoke political action. Yet, FDI only affects grassroots protest, but does not spark large-scale political upheaval.

Chapter 6 has built on these insights and tested whether foreign direct investment affects autocratic regime survival. I focused on autocratic regime survival, instead of democratization. Authoritarian rule ends either because of coups initiated by the regime elite or because of popular uprisings emanating from the middle class. Hence, autocratic regimes have to satisfy both societal groups to hold on to power. The main finding was that FDI attenuates both threats at the same time. International investment generates revenues to buy off the regime elite and it provides market-based income gains for the middle class. Thus, FDI lowers the probability of autocratic regime breakdown. The autocracy-stabilizing effect is not only confined to all forms of autocratic breakdown, but FDI also made breakdowns that actually led to democracy less likely. Furthermore, FDI reduces the probability of regime failure due to elite ousters and mass uprisings.

These findings have implications for several debates in political science. In comparative politics, scholars debate the link between international eco-

nomic openness and regime change (Acemoglu and Robinson, 2006; Boix, 2003; Li and Reuveny, 2009; Teorell, 2010). While most research operates under the notion that economic globalization and democracy go hand in hand, my dissertation provides a different, yet unambiguous answer: FDI bolsters autocratic rule. This dissertation also sheds new light on the theoretical mechanism that connects changes in the international economic environment and domestic politics. With this approach, I have been able to show not only if, but also how FDI matters for autocratic politics. My insights are, therefore, relevant for the public debate. With regard to democracy promotion, advocating international economic openness as a foreign policy objective – like William J. Clinton and George W. Bush did – may have unintended consequences. Importantly, this is not a plea to cut down economic ties. Rather, it is important to raise awareness of globalization's detrimental effects.

With regard to the research on political regimes, my dissertation contributes to the way we conceptualize and think about autocracies. Autocratic regimes are a subject matter in their own right. Autocratic survival is not the inverse of democratization; an autocratic regime often succeeds another. Yet, these regimes differ from one another not only with regard to their institutional setup (Cheibub, Gandhi, and Vreeland, 2010; Geddes, Wright, and Frantz, 2014; Wahman, Teorell, and Hadenius, 2013), but according to the way they incorporate societal groups into their support coalition. Thinking of autocratic diversity in terms of the political power of societal groups is especially fruitful for explaining policy-making in autocratic regimes when different societal groups hold opposing views.

Apart from research on autocratic regimes, my dissertation speaks to our understanding of the distributional consequences of economic globalization in autocracies. Factoral or sectoral models of international trade still feature prominently in international political economy (see, among many others, Acemoglu and Robinson, 2006; Ahlquist and Wibbels, 2012; Boix, 2003; Hankla and Kuthy, 2013; Hwang and Lee, 2014; Li and Zeng, 2017; Meseguer and Escribà-Folch, 2011; Nooruddin and Simmons, 2009; Nooruddin and Rudra, 2014; Pandya, 2010; Pond, 2017; Wibbels and Ahlquist, 2011; Wu, 2015). In line with research that focuses on democracies, I model the distributional

consequences of foreign direct investment using the newest advances in theories on multinational production and international trade integration (Melitz, 2003; Helpman, Melitz, and Yeaple, 2004; Helpman, Itshoki, and Redding, 2010). Doing so paints a more fine-grained picture and allows a more heterogeneous description of the individual-level impact of FDI (see the seminal work by Stefanie Walter, 2010, 2017). Modeling the distributional consequences of economic globalization in that way also helps to explain some empirical patterns. For instance, while the Heckscher-Ohlin as well as the Ricardo-Viner view predict lower income inequality within society, this approach suggests the opposite. This notion is in line with empirical research that detects increasing income inequality in developing countries (Goldberg and Pavcnik, 2007; McCaig and Pavcnik, 2015).

Irrespective of the direct economic consequences of FDI, my findings also speak to research in political behavior that investigates how increasing market income shapes political preferences. Previous research is split between the modernization and the legitimation approach. Proponents of the former connect personal well-being with stronger preferences for democracy (Lipset, 1959; Welzel and Inglehart, 2009; Welzel, 2013). Advocates of the latter link individual well-being with performance-induced legitimacy of autocracy (Bellin, 2010; Treisman, 2011; Wintrobe, 1990). I have argued and shown that the long-term gains from FDI correspond to perceptions of satisfaction with government performance, beliefs in the legitimacy of the political institutions, and muted demands for regime change. While contributing to an overall improvement of economic conditions, FDI is not the motor of political change and does not transform its beneficiaries into agents of democracy. Quite the contrary, foreign direct investment puts the brake on political change and transforms its beneficiaries into advocates of the autocratic status quo.

Lastly, in conflict research, the results of Palmtag, Rommel, and Walter (2018) remedy so far inconclusive findings regarding the effect economic globalization on social unrest. FDI does not unidirectionally induce or prevent domestic political discontent (Dodson, 2015; Robertson and Teitelbaum, 2011; Hendrix and Haggard, 2015); it exhibits both effects at the same time. This is due to the fact that economic globalization not only affects individuals

differently, but also shapes regional differences in economic performance. The regional context is imperative to understand political protest, because it affects the pool of individuals that share common motives to engage in protest. Only when the number of aggrieved citizens is large enough, does protest become a viable option to raise issues and make demands visible.

## 7.2 Limitations and Further Research

Even though this dissertation provides a comprehensive analysis of the connection between foreign direct investment and political developments in autocratic regimes, there are reasons to treat these findings with due caution. For one, this dissertation relies solely on observational data. As such, the empirical analyses are associational, not causal. If we truly cared about estimating causal effects, we would need entirely different datasets, however. Such data either does not exist or is extremely difficult to gather; especially with regard to survey data in autocratic regimes, as conducting survey research on political attitudes is more often than not truly dangerous. Despite this caveat, I am confident that my findings are not driven by spurious correlations. I find support for my argument on several levels of analysis using different data, various estimation techniques, and diverse model setups.

Second, some limitations pertain to data availability and quality. Comparative data on autocratic regime breakdown is not available for less populated countries. Survey data in autocratic regimes is scarce. Additionally, political attitudes are oftentimes biased or not included at all. Apart from that, data on foreign direct investment is plagued by generally low data quality. The United Nations Conference on Trade and Development (UNCTAD) collects the best national-level data on FDI; `fdimarkets.com` provides the best FDI data on the regional level. Despite their best efforts, there are sometimes heavy discrepancies between datasets that are made available at different points in time. For example, I downloaded the first version of the UNCTAD FDI data in 2013. In this dataset, Sudan had average FDI inflows of roughly 500% of its GDP; every year. If this were in fact the case, Sudan must nowadays be the richest country around the globe, given that last year's FDI contributes to next

year's GDP. In a subsequent version, which I am using in this dissertation, this average shrank to about 1.5% of GDP.[1] In addition to quality, missing data is problematic across the board. I approach this problem by reporting both parsimonious models, including a large set of observations, and more extensive models, including a wider set of control variables. Besides, research on the so-called "advanced democracy bias" (Lall, 2016, 416) has shown that missing data is especially problematic when comparing democracies with autocracies. Given that my analyses only include autocratic countries, missing data might still pose some problems, but the bias arising from missing data is at least less pronounced.

Even though there are limitations with regard to data quality, we need further research to fully understand the connection between autocratic rule and economic globalization. While the empirical part of this dissertation tests a multitude of observable implications of the theoretical argument, it also neglects some components of autocratic politics. For one, this dissertation provides a new approach to grasp autocratic regime diversity by focusing on the political power of societal groups. Nonetheless, the distinction between three groups of actors – the regime elite, the middle class, and the disenfranchised masses – is rather crude. Given that most of the research on political regimes still operates with these three groups of actors, this is generally less of an issue. It might, however, become problematic as soon as economic and political interests among these groups are less cohesive than in the case of foreign direct investment. Further research should, thus, concentrate on two areas. First, provide a better measurement of the political power of various societal groups based on more fine-grained indicators. Second, to facilitate the utility of my society-based approach to autocratic decision-making, future studies should also investigate other policy areas than foreign direct investment liberalization that similarly exhibit conflicting demands among the major players in the autocratic support coalition.

To leverage the theoretical mechanism even more, additional analyses should look more closely into the macro-level and micro-level trajectories of

[1] My hunch is that this discrepancy can only arise from a coding error with regard to the units. UNCTAD usually gathers the original data in million USD. Sudan most likely reported some of its FDI in thousand USD.

autocratic regime maintenance. On the macro-level, I have provided evidence that FDI reduces the probability of autocratic regime failure initiated by elite coups and mass uprisings. Yet, I do not test whether FDI affects uprisings and coups in general, but have focused solely on successful uprisings and coups. My argument suggests that FDI should likewise reduce attempted actions aimed at overthrowing the incumbent regime. In conjunction with that, I have not examined the validity of the spending channel concerning the regime elite, but have focused more on evidence regarding the market-based income redistribution channel concerning the middle class. On the micro-level, further research should dig deeper into the effect of FDI on local economic development. Doing so would contribute to a better understanding of the consequences of FDI as well as to the importance of the local and regional context for collective action in autocratic regimes.

Finally, this dissertation is confined to the international economic causes of autocratic regime breakdown. Autocratic regimes and their international economic environment might, however, feature further inter-linkages, which have not yet been recognized and examined systematically. Investigating not only the international causes of regime breakdown, but also the international economic consequences of different forms of autocratic breakdown should thus prove to be a promising and rewarding subject matter.

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